



# Indian Journal of Economics

---

VOL. XV      }      JANUARY 1935      }      PART III

---

AGRICULTURAL PRODUCTIVITY IN RELATION  
TO DENSITY OF POPULATION IN THE  
MIDDLE GANGES VALLEY.

BY

BIRENDRANATH GANGULI

*Professor of Economics, Hindu College, Delhi University.*

In this paper an attempt will be made to examine the problem of the density of population in the Middle Ganges Valley from the point of view of agricultural productivity. It is obvious that such an enquiry is fundamentally an enquiry into the nature of the climatic and hydrographic conditions which determine the high or low agricultural productivity of different regions by determining the geographical distribution of crops.

Every crop has its own particular range of environment. It finds the most favourable environment in a particular region in which a comparatively large area under this crop indicates that it is an important crop characteristic of that region. But its importance diminishes as the environment becomes less and less favour-

able until it ceases to be grown at all. Thus we may observe the varying importance of different crops according to variations in the peculiar conditions of soil and rainfall which constitute the most favourable environments for different crops.

But we must remember that the differences in the nature and distribution of soils in the different Natural Regions of the Gangetic Plain are far less important than the differences in the amount and distribution of rainfall. The Natural Regions are essentially the Rainfall Tracts in which different classes of crops are grown in different soil regions. Now the nature and distribution of soils do not differ appreciably from one Rainfall Tract to another. In fact the soil regions are arranged in an almost similar manner in each Rainfall Tract, so that although the predominance of a particular variety of soil might increase the importance of a certain class of crops in a certain region yet, on the whole, the varying importance of different crops in different natural regions is primarily due to climatic factors. Thus throughout the Gangetic Plain loam is the predominant soil. In the neighbourhood of rivers sand predominates, whereas in the depressions the soil stiffens into clay. Each of these soil regions has its own characteristic crops. In the water-logged region the principal staple is rice and the main Rabi crops are usually gram, peas and barley. On the dry lands, between the rivers and the depressions the usual crops such as cereals, pulses, millets, cotton, sugarcane and oil-seeds are grown. The river valleys have the distinctive series of crops which can be raised on lighter soils, e.g., bajra, cotton, hemp, etc. The arrangement of these soil regions and the crops grown in each do not differ much from one region to another. Hence it is apparent that it is the climatic factors which really explain the varying importance of a crop in different regions and its maximum range of environment.

The Middle Ganges Valley lies between the dry Upper Ganges Valley and the very wet region of the Deltas. "We find that its characters are between the two, and its crops are a mixture of those most important in the drier regions and those found in the Deltas

Region."<sup>1</sup> It is important for our purpose to observe the nature of this combination of dry and wet crops. Rice, one of the most important staples, requires a mean summer temperature of more than 75 to 77 degrees. The largest rice regions have an annual rainfall of 50 inches and a rainfall of 5 inches a month during the growing season. It would appear, therefore, that these ideal conditions are found in North Bihar which receives an annual rainfall of 51.7 inches, while the natural conditions are not so favourable in South Bihar which receives an annual rainfall of 43.5 inches. But we must remember that in South Bihar the natural conditions are sufficiently favourable to the cultivation of rice and, as we shall see presently, the rice crop contributes largely to the agricultural productivity of this region. It is only in regions situated beyond the rainfall line of 40 inches, where the period of high temperatures becomes longer, that the importance of rice is smaller, until the climatic limit is definitely reached in the southern portion of Middle Doab and the Central India Plateau which is a neighbouring region. Wheat, another important staple, has an altogether different range of environment. The conditions which are favourable to the cultivation of rice are precisely those which are unfavourable to the cultivation of wheat. In the Middle Ganges Valley the climate is so moist that the wheat crop is liable to suffer from rust. Most of the important wheat regions of the world have an annual precipitation of less than 30 inches. But where the rainfall is 45 inches or more rusts and fungus diseases are prevalent. Moreover hot and dry climate produces a fine-stemmed plant the grain of which is hard, glassy and rich in nitrogen, and a moist climate produces a coarser-stemmed plant with the grains relatively soft and mealy and poor in nitrogen.<sup>2</sup> Thus it is obvious that in the whole of the Middle Ganges Valley the importance of wheat is very small. It is a more important

<sup>1</sup> Longman's *Regional Geographies of India. The Indian Empire*, Part I, French and Stamp, p. 134.

<sup>2</sup> *Agricultural Meteorology*, J. Warren Smith, p. 185.

crop in South Bihar than in North Bihar where the climate is much more moist. Moreover, wheat that is grown in this region is not pure wheat but is mixed with barley and oil-seeds to guard against a total failure of the crop. Barley, another important staple of the Rabi harvest, has a remarkably wide range of environment. It is the chief Rabi crop in the moist rice-growing regions where wheat cannot be raised under favourable conditions. Thus it is an important crop of the Rabi harvest in the Middle Ganges Valley as a whole particularly in North Bihar. Maize, another important crop in the Kharif harvest, "so readily adapts itself to its surroundings that it is successfully grown over wide climatic ranges."<sup>3</sup> The great corn regions of the world are areas of continental climate, characterised by a large range of temperature. Except where irrigation is practised most corn is grown in regions having an annual rainfall of over 20 inches and a summer temperature averaging about 75 degrees. In America most intensive cultivation is practised in the region where the mean temperature is from 70 to 80 degrees and the annual precipitation is between 25 and 50 inches. In the Middle Ganges Valley also the rainfall and temperature conditions are not unfavourable to the cultivation of maize. In fact maize constitutes one of the most important crops of the Bhadoi harvest in this region. Sugarcane, another wet crop of the Kharif harvest, requires high temperature and a constant supply of moisture. Hence it is grown in all parts of the Gangetic plain, its importance varying with the facilities of irrigation. Gram, another crop in the Rabi harvest, can be grown successfully on various classes of soil. It can be sown on heavy clay lands as well as on light sandy soils. Hence the range of environment of this crop is very wide. But the importance of this crop is very small in the Middle Ganges Valley because the land is devoted to better classes of crops and it is usually sown as a second crop on the rice-land.<sup>4</sup> Another class of Rabi crops having

<sup>3</sup> *Agricultural Meteorology*, J. Warren Smith, p. 145.

<sup>4</sup> This crop has a considerable importance in the drier regions of the Upper Ganges Valley where the wheat crop has a small importance.

a considerable importance in this region consists of oil-seeds which cannot be grown to a large extent in the drier regions of the Upper Ganges Valley but find the most favourable environment in this region.

It will be seen that there are crops like gram and maize which have a very wide range of environment. Now the extent to which these crops are grown depends upon the extent to which other more valuable crops can be raised in the same environment. For example, juar can be grown neither on the heavy clay lands nor on the lightest soils. Loamy soil and soil composed of light clay are suitable for this crop. In the Middle Ganges Valley the importance of this crop is very small because barley and other more valuable food-grains are grown in preference to juar on these better classes of soil. Thus the importance of a crop depends not only upon its own range of environment but also upon the range of environment of other more valuable crops which may be grown in preference to it.

Let us now study the varying importance of the different wet and dry crops in relation to the agricultural productivity of North Bihar and South Bihar. The relevant facts are embodied in the following comparative tables which show the relative percentages of different crops to the total harvest of the year:—

NORTH BIHAR<sup>5</sup>.

Percentage of principal crops to the total harvest.

District.	Winter rice	Sugarcane	Autumn rice	Maize	Wheat	Barley	Gram	Linseed	Til	Bapé and Mustard
Muzaffarpur	29.64	39	4.91	7.37	3.14	13.35	1.97	1.85	.02	.33
Saran	20.91	20.04	3.72	11.94	4.34	14.57	3.28	4.45	.03	.49
Darbhanga	40.55	71	3.39	3.65	2.21	7.21	1.51	7.16	.02	1.94
Champaran	29.47	55	11.95	6.43	5.04	11.47	1.99	3.42	.29	1.06
Bhagalpur	39.97	85	13.55	7.49	6.90	2.14	3.65	3.53	.26	2.60
Purnea	38.98	61	27.51	.29	1.18	.40	1.33	.62	...	7.78
Average North Bihar	33.25	85	10.84	6.19	3.90	8.19	2.29	2.50	.10	2.36

<sup>5</sup> The figures have been taken from *Season and Crop Report, Bihar and Orissa, for 1921-22* Appendix A P. XII.

District.	Winter rice	Sugarcane	Autumn rice	Maize	Wheat	Barley	Gram	Linseed	Til	Rape and Mustard
Patna ...	42.80	1.60	1.13	9.06	9.98	5.96	6.12	1.06	.04	.99
Moinghyr ...	55.57	1.53	.76	2.79	7.08	3.37	5.19	3.63	.03	.73
Gaya ...	43.15	2.49	2.66	2.08	12.27	3.96	10.91	1.18	.30	.92
Shahabad ...	21.22	.41	1.18	13.48	9.11	7.48	8.20	1.45	.07	1.96
Average South Bihar	40.68	1.50	1.43	6.85	9.61	5.19	7.60	1.83	.11	1.15

The most striking fact that is revealed by the statistics given above is the predominance of rice. Both winter rice and autumn rice constitute 44.69 per cent of the total harvest in North Bihar, and 42.11 per cent of the total harvest in South Bihar. Now the cultivation of rice contributes very greatly to the agricultural productivity of a region in which the increasing pressure of population upon land is relieved by the development of intensive subsistence farming. In fact, extensive cultivation of rice co-exists everywhere with a high density of population, while extensive cultivation of wheat co-exists with a comparatively low density of population. "Wheat grows in many climates in almost any soil with varying rainfall and with but little cultivation after the seed is once sown. It is, therefore, eminently suited to extensive agriculture particularly in regions of moderate rainfall."<sup>6</sup> But it is obvious that extensive agriculture always implies a low density of population while a high density of population can be maintained by intensive subsistence farming. Hence, as Professor Carver says, "While wheat is an important crop in the world's commerce it is a poor one from the point of view of intensive farming."<sup>7</sup> Rice, on the other hand, requires a more careful and laborious cultivation. Even in the fertile lands of the Middle Ganges Valley and the Delta Region where there are excellent facilities of natural irrigation rice cultivation requires a large labour force for the preparation of seed-beds, transplantation and other elaborate agricultural operations. Moreover the yield of rice per acre is very high relatively to the yield of any other food crop and, as Rudmose Brown points out, "abundant return accounts for the great density of population in such lands as the river plains and deltas of the Ganges, the Yangtse, the Hoang, the Si, the Mekong, etc."<sup>8</sup> Again wheat with its one crop cannot obviously support as many people as rice can with its possible three

<sup>6</sup> *Indian Journal of Economics*, Vol. IV, Part I, p. 6. An article on Economic Geography, by H. W. Lyons.

<sup>7</sup> Carver, *Principles of Rural Economics*, p. 157.

<sup>8</sup> Rudmose Brown, *Principles of Economic Geography*, p. 40.

crops a year. It may be argued that rice diet is deficient in protein and nitrogen. But we must remember that this deficiency is made up by the consumption of beans and peas or other cereals and vegetables, rich in protein and nitrogen. Hence it is possible for people in rice-growing regions to subsist on a vegetarian diet rather than on a mixed diet of cereals and meat. The result is that land can be devoted exclusively to food-crops and not partly to stock-raising as in the wheat regions of Europe, America or Australia. This means that land in the rice-growing regions can support a higher density of population because, in the absence of stock-farming, more food can be obtained from it. As Prof. Carver says, "The nutrient in the grain required to fatten a beef animal under present conditions is usually much larger than that of the beef produced, to say nothing of the other things consumed by the animal. Again the land required to pasture a beef animal for a year would, if put into grain or vegetables, yield a great deal more food than that of the beef which the animal will add to his carcass."<sup>9</sup> In the case of the non-vegetarian population of the rice-regions of the tropics the deficiency of a rice diet in protein is compensated for by the consumption of fish which is found in abundance in the numerous rivers and streams of these regions so that the high yield of rice per acre supplemented by the yield of the fishing industry is capable of maintaining a comparatively high density of population. Thus it is clear that the predominance of rice cultivation in the Middle Ganges Valley has increased its agricultural productivity from the point of view of subsistence farming and enabled it to maintain a higher density of population than other regions beyond the rainfall line of 40 inches in which wheat is the principal crop and the area under transplanted rice is insignificant.

But while it is true that in this region the predominance of rice cultivation co-exists with a higher rural density we must not overlook the relative importance of winter rice and autumn rice from the point of view of both agricultural productivity and agri-

<sup>9</sup> Carver, *Principles of Rural Economics*, p. 163.

cultural security. Winter rice is sown broadcast after the commencement of the rainy season in June or July on the seed nurseries. After four or six weeks there is transplantation. The plants are allowed to mature. Then the water is drained off and the lands are allowed to dry for ten or fifteen days at the end of which they are again flooded.<sup>10</sup> This practice renders rainfall at this time absolutely essential. In fact if there is a failure of late rains towards the end of September or in the beginning of October, i.e., during the period of *Hathiya* asterism the winter rice does not mature at all and there is an almost total failure of the crop. We have already seen that in this region it has not been possible to irrigate the rice-fields by artificial means to any considerable extent in the event of a failure of late rains. In North Bihar schemes of artificial irrigation have been rendered uneconomical for the simple reason that artificial irrigation is not required in normal years. Moreover the streams of North Bihar are mostly non-perennial streams so that the supply of water is too unreliable to feed any canal system. Well-irrigation is also out of the question because wells cannot stand owing to inundations and also because Aghani rice, the main crop, cannot be irrigated from wells. In South Bihar the capacity of *Ahars* is too small for the storage of the immense quantity of water that may be required for the irrigation of rice-fields. Moreover they are apt to dry up in years of drought and thus fail to protect the crops. As in North Bihar, most of the streams of this region, except the Son are non-perennial streams which cannot feed any canal system. And it is important to bear in mind that even in those agricultural tracts which have been brought within the Son Canal system the rice crop cannot be rendered safe when there is a failure of *Hathiya* rainfall because there is too great pressure on the supply of water during ten or fifteen days which constitute the critical period. Thus it is clear that in the Middle Ganges Valley as a whole the predominance of winter rice always co-exists with a high degree of agricultural insecurity. In fact it may be taken to be generally

<sup>10</sup> This is locally called *Ningar*.

true that the higher the percentage of net-cropped area under winter rice in a particular region the greater the economic distress in the event of a failure of *Hathiya* rainfall. The following statistics relating to the famine of 1897 will illustrate this conclusion in a striking manner:—

*Predominance of winter rice in relation to famine<sup>11</sup>*

District	Percentage of net cropped area under winter rice	Highest number of persons relieved on any one day	Percentage of persons relieved to total population affected by the crop failure
Durbhangā	57.33	253,910	10.49
Muzaffarpur	42.35	139,355	6.93
Saran ...	29.11	85,173	5.75

We shall now consider the importance of winter rice from the point of view of agricultural productivity. It is no doubt true that winter rice is itself a heavy-yielding food crop and is thus a highly productive crop from the economic point of view. But the question of the economic importance of winter rice must be examined in relation to the nature of double-cropping which is associated with the cultivation of winter rice.

Now the economic importance of double-cropping depends not merely upon the area which bears more than one crop in the same season but also upon whether valuable crops can be raised as second crops on the land which has already borne a Kharif crop. Hence we must not consider the high productivity of winter rice by itself; we must consider also the nature of the other Rabi crops which are grown after winter rice as second crops. In the Middle Ganges Valley the chief Aghani crops are sown before the Bhadoi crops are harvested and similarly the chief Rabi crops are sown before the Aghani crops are reaped. Hence it is obvious that an Aghani crop cannot usually be sown as a second crop to Bhadoi. The

<sup>11</sup> J. H. Kerr, *Survey and Settlement Report*, Durbhangā, 1896-1903.

second crops must necessarily consist of Rabi crops grown after either the Bhadoi or Aghani. Where Aghani is the principal crop the succeeding second crops consist of cheap catch-crops like Khesari, gram, linseed and peas because the more valuable Rabi crops like wheat and barley will be sown before the Aghani is harvested. Hence it follows that the larger the area under the Aghani harvest the smaller will be the contribution of double-cropping to agricultural productivity. Moreover in abnormal years the cheap catch-crop sown as second crops cannot obviously mitigate the economic distress which is caused by the failure of winter rice. Thus when the productivity of winter rice is taken together with the productivity of other Rabi crops which are sown as second crops we find that the predominance of winter rice in a certain agricultural tract does not imply that the productivity of agriculture as a whole is high.

On the other hand when we consider the importance of autumn rice and other Bhadoi crops in relation to agricultural security and agricultural productivity we reach different conclusions. In the first place, the predominance of autumn rice and other Bhadoi crops means a greater agricultural security. Bhadoi rice, for example, is reaped in September so that it is possible for the farmers to get a bumper crop even when the Aghani rice has failed due to the failure of the *Hathiya* rainfall. In fact a late monsoon which is disastrous to winter rice crop is sometimes actually an advantage to maize, one of the most valuable Bhadoi crops. In the agricultural tracts bordering on the Ganges a late monsoon is usually accompanied by a late rise of the Ganges and the result is that the farmers get a bumper crop of maize. Moreover an early failure of the monsoon gives an early Rabi season and as the farmers depend as much on well-irrigation as on rainfall late rains do not affect very much the yield of the valuable Rabi crops. Again when there is a failure of winter rice elsewhere due to the late monsoon the money value of the early Rabi crops increases and yields a higher return to the farmers in these agricultural tracts. It must be remembered, however, that the Bhadoi

crops are frequently destroyed by inundation. But even then the plants are pulled out and utilised for feeding the cattle and when the water recedes the remains of the vegetation are converted into manure and the land reploughed and sown with wheat, barley, peas and gram which yield a very good return. On the other hand when winter rice fails the Rabi crops yield a very small return not only because they consist of cheap catch-crops but also because the yield is very poor even when rain falls subsequently. In the second place, the predominance of autumn rice and other Bhadoi crops means also a higher agricultural productivity. With favourable winter showers a good Rabi crop can be raised on land which was sown with Bhadoi rice. Other Bhadoi food-crops like maize and Marua can also be followed by valuable Rabi crops such as wheat, barley and mustard.

Let us now consider the comparative statistics of crops in relation to the agricultural productivity and the agricultural security of North Bihar and South Bihar. The conclusions which we derive from these statistics are summarised below.

#### **North Bihar.**

- (1) The smaller importance of winter rice.
- (2) The greater importance of Bhadoi crops like rice and maize.
- (3) The greater importance of oil-seeds and barley.
- (4) The smaller importance of gram and wheat.

#### **South Bihar.**

- (1) The greater importance of winter rice.
- (2) The smaller importance of Bhadoi crops.
- (3) The smaller importance of oil-seeds and barley.
- (4) The greater importance of gram and wheat.

It is clear that the importance of Bhadoi crops and of the valuable Rabi crops such as oil-seeds and barley which are mostly raised as second crops is greater in North Bihar than in South Bihar; while winter rice together with inferior Rabi crops such as gram

and mixed wheat, is more important in South Bihar than in North Bihar. It was anticipated that in South Bihar the introduction of canal irrigation will lead to an increase in the area under the Rabi crops as in the canal irrigated areas of the Upper Ganges Valley. But contrary to expectations there has been an enormous increase in the area under the Kharif crops, specially winter rice with the result that agricultural insecurity has increased. It must also be remembered that the contribution of double-cropping to agricultural productivity is greater in North Bihar than in South Bihar, and this is due to the predominance of Bhadoi crops. Thus when we consider the problem of the density of population either from the point of view of agricultural productivity or from the point of view of agricultural security it becomes easy to explain why North Bihar as a whole should maintain a higher density of population than South Bihar.

In this connection it is interesting to note that there is another method by which we can grasp the relative agricultural productivity and agricultural security of North Bihar and South Bihar. As already explained agricultural prosperity in the Middle Ganges Valley is evidenced by a statistical correspondence between the twice-cropped and the Bhadoi areas. The reason is that where a large area under the Aghani crops is accompanied by a large area under the Rabi crops the figures for Rabi area are inflated by the inclusion of large areas under cheap catch-crops like Khesari; whereas it is only on Bhadoi lands that valuable Rabi crops can be raised as second crops. Hence Mr. Stevenson-Moore suggests that "By adding the Bhadoi and Rabi areas and deducting the Aghani area we get a fairly correct measure of agricultural prosperity."<sup>12</sup> Now the Indices of Prosperity worked out on this basis would be 37 and 31 for North Bihar and South Bihar respectively. It will be seen that this interesting statistical result provides a striking verification of the conclusion which was stated in the last paragraph.

<sup>12</sup> Stevenson-Moore, *Survey and Settlement Report, Muzaffarpur*, 1892-99.

The correspondence between agricultural productivity and density can also be clearly traced when we consider the variation in density from one agricultural tract to another within the districts of North and South Bihar. In North Bihar, for example, the uplands bordering on the Ganges are more densely populated than the lowlands situated in the North. The uplands are immune from floods so that it is possible to sow a comparatively large area under the Bhadoi crops. The lowlands, on the other hand, are exposed to inundation and hence the staple crop is necessarily Aghani rice. The area under the Rabi crops is much larger in the rice-growing lowland region than in the upland tract. But as already explained the figures for the Rabi area in the rice-growing region are inflated by the inclusion of large areas bearing cheap catch-crops rather than valuable Rabi cereals which follow the Bhadoi crops. Consequently the Index of Prosperity is lower in the case of the northern lowlands than in the case of the southern uplands. Let us turn to the actual statistics relating to the northern and the southern Thanas of Muzaffarpur, Durbhanga and Champaran.

#### MUZAFFARPUR

##### (Northern Thanas) *Density low*

	Bhadoi	Aghani	Rabi	Index of Prosperity
Shinar ... ...	31	63	74	42
Sitamarhi ... ...	31	63	66	34
Pupri ... ...	30	65	68	33
Belsand ... ...	29	65	77	41

## MUZAFFARPUR

(Southern Thanas) *Density high*

		Bhadoi	Aghani	Rabi	Index of Prosperity
Katra	...	43	46	74	61
Muzaffarpur	...	42	39	59	62
Paru	...	43	31	46	48
Lalgunj	...	46	39	41	49
Mahua	...	40	41	43	42
Hajipur	...	44	29	63	79 <sup>13</sup>

## DURBHANGA

(Northern Sub-Divisions) *Density low*

	Bhadoi	Aghani	Rabi	Index of Prosperity
Madhubani	22	71	47	-2
Sadar	25	66	47	6

## DURBHANGA

(Southern Sub-Division) *Density high*

Samastipur	41	39	46	48 <sup>14</sup>
------------	----	----	----	------------------

<sup>13</sup> It is significant that in Hajipur a high agricultural prosperity co-exists with a remarkably high density of population. In 1891 the density was as high as 1,251 persons per square mile.

<sup>14</sup> Such a high index explains why this sub-division could maintain as many as 1,000 persons per square mile of cultivated area in 1901.

## CHAMPARAN

(Northern Sub-Division) *Density low*

	Bhadoi	Aghani	Rabi	Index of Prosperity
Betlah	42	43	53	52

## CHAMPARAN

(Southern parganas) *Density high*

	Bhadoi	Aghani	Rabi	Index of Prosperity
Adapur ...	54	40	64	78 <sup>15</sup>
Dhaka ...	49	36	64	77
Madhubani ...	40	37	60	63
Govindgunj ...	52	34	49	67

In South Bihar the density of population is higher in the northern alluvial tracts bordering on the Ganges than in the arid tracts to the south. In Sahabad, for example, the density of population in the northern tract is twice as high as in the rocky and dry regions of the south. It is interesting to note that in the case of Arrah which is the most densely populated Thana situated in the northern tract the index of prosperity is 63; whereas in the case of Bhabua which is the least densely populated Thana in Sahabad the corresponding index is only 47. In the case of Gaya also the indices for Barachatti and Shergatti, the two sparsely populated Thanas of the South, are 12.4 and 11.4 respectively.

<sup>15</sup> It is significant that density in these Thanas is over 800 persons per square mile.

On the other hand the indices for the northern Thanas are higher: the index is 22.7 in the case of Jahanbad, 33.8 in the case of Daudnagar, 27.8 in the case of Nabinagar, 33.7 in the case of Aurangabad, and as high as 46.6 in the case of town Gaya. Similarly, the index of prosperity for North Monghyr which maintains a higher density of population than South Monghyr is as high as 80, such a high index being due to the fact that only 29 per cent of the cropped area is under winter rice.<sup>16</sup>

<sup>16</sup> In this region the Teghra and Begusarai Thanas maintain a density of more than 800 persons to the square mile. There agricultural productivity is high not only because winter rice is an unimportant crop but also because maize a valuable Bhadoi crop is the staple crop and is followed by valuable Rabi crops such as tobacco, chillies, barley and wheat.

---

## THE FASCIST CONCEPTIOIN OF ECONOMICS

BY

SIR. J. C. COYAJEE

*(Continued from the October issue.)*

### **The Institution of Property.**

Before studying the Fascist conception of property it is well to note the leading trends of the idea of property in modern economic theory. To begin with, the main defence of the right of property has come to be the idea that property is but a "public trust." Whatever then the origins of property might have been, social service has come to be recognised as the basis of all rights of property. Such "stewardship" is not only the economic but also the ethical *raison detre* of property and thus for our generation there can be no separation of the idea of Property from that of Responsibility. We need not go so far as to hold that former generations did not recognise the connection of the two notions; but as civilization has progressed it has been more and more realized that property should justify itself by social service. Moreover whatever the origins of property were in former days, in our times it is expected to be based on our work and to form the great stimulus to useful exertion. Another tendency which is very noticeable in our times is that of regulating and limiting the use of property. In fact there is a growing tendency for

the limitation of individual proprietorship both as regards the nature and extent of the right. Consequently in our times, as an American Economist has observed, "Property is always held conditionally. It is a trust as much as a possession, a duty to render services as well as a privilege to be enjoyed. In this sense private property implies regularly a contract between the legal owner and the government which stands by him in a dispute." In fact we are leaving behind the exclusive aspect of property and tending to envisage it as an instrumentality "which facilitates co-operation."

It is in this spirit and sense that Fascism at once recognises and limits the right of Property and its corollary the right of Inheritance. Property is recognised partly because it has been the institution which has materially assisted the development of civilisation. In this connection Fascist writers draw attention to the writings of Mr. Keynes in which he traces the influence of the institution on secular evolution. In fact again the right of Property is emphasised because of its importance in developing a civic sense of responsibility. Then, again, the recognition of such an institution was particularly necessary because of the special conditions of Italy which is a land of small proprietors. We note in passing that as a corollary of the high importance attached to the right of property death duties are relegated to the background in the system of Fascist finance.

But if the right of Property receives full recognition under the Fascist régime, so also do its limitations. Here, again, the Fascist interpretation of property has to be distinguished from the fully materialistic meaning attached to it by the classical economists; while it approaches the significance attached to it by Hegel and Fichte who would think of it as related to the group and class structure in a state and to the obligations and duties implied by that structure. As has been authoritatively pointed out the right of property does not amount "the *jus utendi, fruendi ac abutendi* as envisaged by the jurists of the Rinascimento, but only to the *facultas procurandi ac dispensande* of St. Thomas." That is a

very neat summing up of the Fascist position as to property for which we are indebted to two high authorities—Messrs. Alberto de Stefani and Luigi Amoroso. As they go on to point out, in the economic system we cannot expect that the position of intransigence can be safely taken up since that is the sphere in which divergent interests have to act in composition and harmony. As a result we have the assertion of the responsibility of the private owner to the State and of the State's right of intervention when such responsibility is not adequately fulfilled. We note further that the State itself is to be the sole judge of the fact whether the individual owner has adequately performed his duties. But it is added on good authority that in utilising such powers the State should not act on grounds of abstract theory, but must be guided rather by "realistic criteria" so as to respect historical and traditional rights. It is easy to furnish actual illustrations of the enforcement of such responsibility. Thus there are various regulations making private owners of property answerable to the nation, e.g., in the statute of the National Fascist Confederation of Farmers. In particular cases landowners who do not properly utilise their land are threatened with expropriation.

#### **Private Initiative.**

It is when we come to the topic of Private Initiative that we appreciate the synthetic or eclectic character of Fascism as an economic system. We then appreciate why Sombart calls the system the highest possible synthesis between the power and authority of the State and that of Capitalism. The same idea has been emphasised by Einzig when he urges that "the Fascist system of production is based upon a curious mixture of individualism and State intervention." This is no doubt a great achievement and merit of Fascism, for through that synthesis it can combine the driving force of private initiative and of State action. In its 7th Declaration the Labour Charter proclaims in no hesitating voice that "in

the sphere of production, private initiative is the most effective and valuable instrument in the interests of the Nation." In this way it avoids the dangerous policy of nationalization of industries, while the State still retains the right of intervening to regulate economic life and activity and can enjoy all the advantages of a planned economy. It deliberately declines to nationalise concerns and industries even when it is quite possible to achieve that aim, and prefers the task of supplementing private enterprise. A very good example of this policy is to be seen in the sphere of banking where Fascism has preferred to regulate rather than to nationalize. It prefers that decisions should be made in business matters by those who would reap the gain or bear the losses. In this way the Fascist régime secures the advantage of the proper selection of business leaders. The main dangers of socialism are avoided while the benefits of the *laissez-faire* system are secured.

An important corollary of this acceptance of private initiative on the part of Fascism has been drawn by Messrs. de Stefani and Amorose. They emphasise that, as a result of the whole-hearted acceptance of private initiative, *Corporative economy does not constitute a negation of Classical Economy* and does not demand any inversion or revolution of the principles governing it." That is a proposition of a particularly satisfactory and re-assuring character. Another inference too can be drawn from this dictum to the effect that in accepting the principle of private enterprise—i.e., of regulated private enterprise—Fascism occupies the position of the golden mean between Socialism and Individualism. It avoids the impossible tasks which Socialism must assume—of creating a new moral and material system. It also avoids the negative and subversive aspect of Socialism which has to break entirely and definitely with the past. Here Fascism shows its practical genius and its capacity to avoid utopias. It is the greatest of those experiments indicated by Mr. Keynes which are directed towards "discovering the respective appropriate spheres of the individual and the social and the terms of fruitful alliances between these sister impulses."

In spite then of the reluctance of individual Fascist economists to recognise that position we might safely say that the Corporative system is equally remote from the two extreme positions of pure individualistic Capitalism and Socialism. Dr. Einzig while recognizing this adds that "Fascism is nearer to Socialism than to *Laissez-faire*." This is a position with which it is difficult to agree. True, both Fascism and Socialism have to fight *laissez-faire* as a common enemy, as he points out, and both systems abolish the right to strike and to lock-out. But, on the other hand, Fascism permits and encourages both private property and private initiative—retaining only the right to control and regulate both. The principle of state control for which Fascism stands is obviously quite distinct from that of Nationalization. That Fascism will in future move more towards Socialism as regards the policies of banking and finance and in egalitarian legislation is only the individual opinion of Dr. Einzig. But Fascist methods are eminently experimental in character; and neither the anxiety of Fascism to encourage and sanctify private property nor the help which it extends to co-operation shows any movement towards Socialism. To the Fascist Government which is dependent on a multitude of small properties which are organized intensively on corporative and co-operative lines the path towards Socialism might well seem closed. How a system which starts by denying class war or dictatorship of the proletariat and which insists upon "the fertilising, beneficent and unassailable equality of men" can be said to be moving towards Socialism is a view which certainly requires a good deal of proof and explanation.

More recently the contrast between Corporativism and Socialism has been emphasised anew by Prof. Napolitano. He notes that there are three great existing currents in the economic and social world of today. The first is, according to him, the Liberal Individualism of which the last heir is "Trustism" of the American brand. The second is Russian "Statism" based on Marxism; and the third is the Italian "Corporativism". This last is again contrasted with the *bourgeois* state favoured by the

Liberal School and the Proletarian State beloved of Socialism. Napolitano again contrasts the nature of the three kinds of states in an aphoristic form. The Demo-liberal state is the non-interfering or absent state; the Fascist state controls everything (*Stato Controllare*) while the Socialist State controls everything, (*Stato Gestore*).

Reverting for a moment to the topic of private initiative we might notice a controversy between Corporative economists on the subject. Spirito had denied that there exist both a state initiative and an individual initiative supplementing each other. True to his idea of the identity of the State and the Individual, he goes on to identify the two initiatives. His argument is that since we confide to the state the initiative in most important matters like justice and education we should not and could not relegate economic affairs to individual egoism and caprice. To this Napolitano replies that such a line of argument would lead straight to Statalism or Socialism or at least to a nationalization of industries through corporations formed for the purpose. What Corporative Economics envisages, however, is the investing of individuals with a controlled initiative—controlled through the instrumentality of corporations which form only one of the factors of production. The controlled private initiative is also supplemented by the general principle of the responsibility of producers to the state. On these grounds Napolitano rejects the identification of the Individual and the State and insists on the affirmation of “a pragmatic superiority of the state over the individual.”

The Fascist must not lose sight of this idea of a controlled private initiative. Thus in his critical and yet appreciative recent article on the “Fascist system” Prof. Marcel Prelot of Strasburg University has drawn attention to this fact of the regulation and control of the private initiative under the Fascist system. That fact follows directly from the principle that the State has the chief voice in formulating the objects and orientation of the national economic policy. It is within the limits of the general economic

policy of collaboration that the individual can exercise his right of private initiative and can attempt legitimately to develop the prosperity of his business. As has been pointed out, where individual initiative is found inadequate or where state political interests are involved private initiative gives way before State intervention. Little criticism can be justly advanced against this. Any way it is not for those who have been pointing out the wastes incidental to Economic Individualism or Capitalism to protest when individual initiative is guided or even limited in general interests wherever it is found inadequate.

### **The Entrepreneur and his profits.**

A topic closely related to that of private initiative in economic sphere is that of the Entrepreneur function. The Corporative system, which justly recognises the merits of private initiative, is equally right in admitting the importance of the Entrepreneur system when properly regulated. The Duce himself bears witness to the value of the entrepreneur when he observed that "as capital like the capitalist becomes anonymous there comes forward in the first scale of economic enterprise that chief of economic undertakings—the captain of industry and creator of wealth." At the same time that fundamental document—the Charter of Labour—lays it down that "in view of the fact that the private organization of production is a function of national concern, the organiser of the enterprise is responsible to the state for the management of its production."

A valuable commentary on these positions is to be found in Stefano Giua's work on the functions of the entrepreneur—"Il Gestore d'industria nell'economica corporativa." The theoretical treatment of the subject to be found in the book is very sound indeed. The entrepreneur is said to have two functions. The first of them is that he is the person who carries on the industry. From this the author deduces a wage theory of profits on the lines of that of Professors Taussig. and A. S. Johnson. As he well notes,

the entrepreneur is only a labourer belonging to a higher category. Another corollary drawn is that there exists a solidarity between the interests of entrepreneurs and employees. All this is quite in conformity with the current trends of the theory of profits, since the productivity of the entrepreneur is emphasised by most economic authorities along-side with the productivity of Labour—the former being due to introduction of better methods of production.

But there is a variety of less creditable methods of making profits; these less desirable varieties of profits might well be eliminated by wise economic policy. Most economists have been in favour of such elimination. Thus Hobson has argued that the "gains of monopolies and artificial scarcities do not evoke productive efforts. Rather they restrain and limit them." Hence such profits are "functionless," and industrial progress does not demand the kind of 'services' which are rewarded by such profits. Signor Giua is therefore perfectly right in emphasising the second function of the entrepreneur in the corporative economy—that of the carrying on of a social service ("gestore di unservizio sociale"). In view of this social and ethical aspect of the matter the state must intervene and control the entrepreneur's activities so as to permit those which are socially desirable.

Francois Perroux—a well-known writer on the theory of Profits has criticised the idea of the Entrepreneur as presented by Signor Giua. In the first place the idea that the Entrepreneur is a "Social functionary" might either be a mere aspiration or "a platonic view" or it might form the basis of imperative practice. In the former case it is a vague hope not realised into anything in particular. In the latter case he asks "through what organs and with what guarantees is this eminent domain of the Fascist state on national industry—this state superintendance of production—to be exercised?" Francois Perroux goes on to add that this Fascist conception of the Entrepreneur is a curious mixture of borrowings from Syndicalism—whence is derived the idea of the professional morale and of producers' enthusiasm—and from St. Simonism which emphasised the necessity of an industrial aristocracy.

A few observations might be permitted on this critique of the Fascist notion of the Entrepreneur on the part of Francois Perroux. The Fascist is nothing if not eclectic, and many Italian economists claim that Corporative Economics sums up the ideas of earlier schools while improving on them, and that one of these ideas is that of raising Entrepreneurship to the level of a profession. As regards the instrumentalities for regulating the work of the Entrepreneur, the Fascist might reply that there is no lack of them—there are the Syndicates and the Corporations for example. So far as the State acting through these institutions and through Labour Courts goes on to fix wages—and incidentally even prices—is it not also by implication determining profits? If the distribution of the national income is made to depend on agreements made between different categories of production, does not that procedure regulate automatically the share of the Entrepreneur? We conclude then as against the view of M. Perroux that under a Fascist régime the state possesses ample powers and instrumentalities for regulating the activities and even to a large extent the remuneration of the entrepreneur.

But, incidentally, there is to be noted here an important change of position on the part of Fascist Economists as regards the merits of Competition. In general, as we have seen, competition is looked upon by them with suspicion. But, when dealing with the theory of Profits, it is pointed out by them, as the ground of regulation by state, that competition has failed in its task of keeping down profits to the legitimate minimum and of keeping in existence an adequate supply of rival producers. The *homo œconomicus* was also regarded by them with disfavour generally speaking. But in the face of the appearance of monopolies and trusts the fact that the *homo œconomics* (in the shape of the small entrepreneur) has been supplanted by the *homo politicus* (personified by the great financier or monopolists or groups of such financiers, is made a reason for state intervention. In fact, while it is the vigorous action of competition which is adversely commented on generally in other economic spheres, it is the degenera-

tion and weakness of competition that is complained of in this particular case.

Put more important than the Fascist theory of Profits is the general policy of the Fascist state to which the Entrepreneur is subordinated. We must remember again Sombart's dictum about the Corporative state being a synthesis of capitalism and of the power and authority of the state. We have already noted Giua's view that in the Corporative Economy the entrepreneur is an industrial functionary and enterprise is a social service. The Magistracy of Labour has a most important influence on Corporative Economy, for under it Capitalism and the Entrepreneur system is regulated. In so far as wages are fixed by state organs, prices and profits too are regulated by implication. Since it is the duty of the Labour Courts to protect the higher interests of production, the State has to look to and to take care of the welfare of Labour on one side and of the interests of the Entrepreneur on the other. Few will deny that so far as Fascism can control the over-weening power of Capitalism and Monopoly and at the same time will leave legitimate scope for the activities of the Entrepreneur it will have deserved well of the world.

#### **Fascism and Economic Internationalism.**

With the rapid and continuous growth of economic solidarity, of which the present depression has given the final and most convincing proof, the need of a transition from Economic Nationalism to Internationalism has become urgent and desirable. The idea has been in the air, however, for a very long time, and, indeed, "the pacifism of the Manchester School" was by amplification a bid for Economic Internationalism on the basis of unregulated free trade. In a sense, then, the whole history of Protectionism for over a century is a chapter in the history of Internationalism—a retrograde chapter it is true. The tale was then taken up by International cartels and trusts. It is an irony of history that trusts

which were encouraged and supported by Protectionism came at last to necessitate a new departure in Economic Internationalism. The movement was further strengthened by the exposure of the fallacies underlying economic Imperialism. One by one the apparent advantages of such Imperialism disappeared until only the advantage in the way of investment abroad was left and even that is being held suspect in our own days. Meanwhile Capitalism has been continuing to make a bid for Internationalism off its own bat, mainly through the instrumentality of international trusts and combinations. It has been appealing to the new idea of Rationalisation which might be carried on as is readily conceivable both on national and international planes. It is claimed that international agreements and combines would make tariffs superfluous. As against the proposed Internationalism on these lines it has been argued that this amounts only to "Inter-capitalism" and further Mr. Holson has commented that "as capitalism generated imperialism, this inter-capitalism will generate inter-imperialism." But, further, such Internationalism will require stringent regulation both on national and international aspects in order to ensure that these new monopolies are not injuring the interests of labour or of consumers.

A more promising method of introducing Economic Internationalism would be by means of the growth of agreements between states which would ensure the utilisation of world's raw material in general interest instead of in particular interests. Such a policy would follow the lines on which Corporative Economics has limited the rights of private property in the case of individuals. Just as Fascism has been attaching conditions to the right of private property with the object of maximising national economic interests, so when the League of Nations has developed into something much more coherent and strong—in fact into a super-state—it might limit the rights of individual states to the raw materials of the world to the advantage of all states alike. The difficulty is however that the development of the League or of any analogous body today which can successfully tackle the problem

will require a great deal of time as well as far more favourable conditions of evolution than exist at present.

Fascism too lays claim to form the basis of a system of Economic Internationalism; and certainly there are various important trends in the Corporative Economic theory which are favourable to the formation of such internationalism. There is, for example, the idea of supplanting competition by collaboration. This it has been added, can be extended to the international sphere. Thus Spirito has observed that there are two ways of envisaging economic competition—one kind of competition aimed at destroying one's rivals while the other works at unifying the wills of the competitors. He goes on to add that the first and destructive variety of competition does not much prevail in the international sphere as between countries, for you cannot knock out whole countries which are your rivals. Hence the competitive aim has to be altered and we must regard other countries "not as obstacles to be battered down but as forces to be utilized." Such utilization can take place through coordination of national forces for common aims. In a word, "competition is to be regulated towards the most opportune division of labour." We are then invited to bring about "a competition which is superior to what is commonly intended by the word." We are told to turn our backs on both Free Trade and Protection and aim at true collaboration according to circumstances, for, says Spirito, Corporative Economy is something above and better than both protectionism and free trade. According to that regime neither high protectionism nor unchecked competition is to be our goal; for do they not both pre-suppose the fundamental autonomy of economic forces? Certainly the question will be asked—should we in the meantime go on throwing down the customs barriers or raising them and defending them at all costs? Spirito would answer that we should avoid solutions on purely Free Trade and Protectionist lines which both imply a state of economic war between nations, "Let us hasten the process of (international) rationalization and go on in the meantime as far as we can with or without customs barriers, according to the urgency of matters and forces and in the

light of special economic and political and economic conditions of each case."

To the same effect Messrs. Alberto Stefani and Luigi Amoroso criticise Protectionism as a policy of state intervention which has been formed "in a chaotic and fragmentary form, without a plan and without a comprehensive vision, solely under the tumultuous pressure of opposed interests." So also, in his speech of 24th February 1932, in the Chamber Deputies, Giuseppe Bottai—a distinguished Fascist leader—denounced high protectionism as being opposed to the corporative spirit and which went against the interests of consumers while interfering at the same time with processes of production. He expressed the willingness of Italy to examine and revise high tariffs.

However, according to the Fascist Economists such a policy of collaboration with other countries requires for its full realization the acceptance of the organic and corporative idea of the state by other nations since obviously international organization implies the existence of similarity of national organisms. Indeed, it is added that a corporative state cannot develop its aims fully except under an international organism of states. In that way, says Spirito, the State which identifies itself with the Individual also identifies itself with the International organism. That will be indeed the triumph of the organic idea over the conception of the *homo oeconomicus*. Dr. Einzing too has pointed out that "once a sufficiently large number of countries have adopted the Corporate System. . . it will be relatively easy to come to an understanding both in the political and economic spheres." Spirito would go further and urge that in order to realise its main aims "the State should identify itself with humanity resolving its own organic being into the international organism." This is indeed the carrying out of the Solidarist thesis to its logical conclusion.

No doubt, we might conclude, the very proposal to extend the idea of collaboration to the sphere of international economics is in itself a promising advance. For the originating factor of the present Depression is the want of international collaboration in the

spheres of currency, of foreign trade and of investment. Thus the great error of the creditor states lay in their refusal to receive repayments from the debtor nations in goods and services. So also many countries failed as regards collaboration when they neglected to play the game of gold standard according to the essential rules. We might be sure then that nothing but international collaboration can get the world out of the great tangle and labyrinth of the present Depression. But on the other hand we expect something more from F. scism than the mere emphasising of the need for such collaboration. It should frame the forms and methods of such collaboration and translate them into a sound and practical policy in proper time.

---

# A STUDY IN INDIAN COST OF LIVING INDEX NUMBERS

BY

S. R. BOSE, M.A. (CAL.), B.Sc. (ECON.), LONDON,

*Lecturer in Economics, Patna College.*

*(Continued from the October issue.)*

We now come to the important problem of weighting. Everyone will admit that a rise or fall in the price of one commodity will not cause the same hardship or will not be hailed with the same satisfaction as an equal rise or fall in the price of some other commodity. Thus as Mr. K. L. Datta points out, a rise in the price of rice is forty times as important as an equal rise in the price of pepper. Similarly a fall in the price of wheat will give much greater satisfaction than an equal fall in the price of tea. For this reason we have to find out the importance of the different commodities in the budget of the family. The relative importance of the different items are indicated by the weights given to each. There are two types of index numbers in general use. In the first (and this is the more usual one) the rise or fall in the prices of the items are indicated by 'price relatives,' i.e., by numbers which bear the same ratio to 100 as the price in the current year bears to that in the base year. Then the average of the price relatives is taken and this gives the index number. In the second type the actual prices of the different items are added together and this aggregate gives the index number. When this aggregate cost of certain definite quantities of certain commodities is compared with the aggregate cost of similar amounts of the same commodities in the base year we get an indication of the rise and fall of prices as a whole. Sometimes the aggregate in the base year is taken as 100 and the aggregate in other years are expressed by relative figures. Now neither of these two types can be strictly called unweighted index numbers. In the second type the weight given to each item in the result is determined by the unit of quantity for which price is given as well as by the price of the unit. If the unit is made

larger, the rate of price remaining unchanged, the price of the larger unit will now be expressed by a correspondingly large amount of money, and this price will form a larger proportion of the new aggregate than the old price formed of the former aggregate. In the first type as the price of each article in the base year is expressed by 100, the weight attaching to each item is given by that figure which multiplied by the actual price of that item would make it equal to 100. Here the unit of quantity and price per unit are prevented from exercising their natural influence on the aggregate, by multiplying each price by an arbitrary number which equates it to 100. This is thus not an instance of absence of weighting but of haphazard weighting. On examination, therefore, it proves that both these types are the results of unconscious weighting. From unconscious weighting let us now pass on to conscious weighting. There are different methods of doing this.

(A) Where the index number is of the second type, if we could ascertain the total number of units of each commodity consumed by the particular class of people whose cost of living we are trying to ascertain, then the unit price of each item multiplied by its "mass units" would indicate the true relative importance of this item in the total expenditure of this particular class of people. This method may be called either the aggregate consumption method or the aggregate expenditure method. But the difficulty about this method is that reliable figures about the total consumption of each article by only a particular class of people in the community are not generally available. Recourse is, therefore, usually taken not to the total consumption of each commodity by a particular class of people, for which reliable statistics are not available, but to the total consumption in the whole country for which figures are available. The consumption of a particular commodity in any country is found by adding up the figures for production and imports and subtracting from it the exports. The consumption figure for each commodity is known as the "mass unit" and the total of all the mass units is called "the regiment or composite unit." This is the method that was recommended by the Government of India in

1921 when the question of constructing a cost of living index for India was first mooted. But this method, when applied to India, has the following defects. The statistics of production of articles like fish, meat, ghee, milk, vegetables, etc., are not recorded and recourse must be had to indirect and rule-of-thumb methods to ascertain the amounts of their consumption. Figures for export and import, even where recorded, are not complete, inasmuch as the methods of recording overland trade are not entirely satisfactory. As part of the stock of one year would be carried over to the next, the device of averages for the five pre-war years had to be taken, to find out the normal rate of consumption in the country. The personal services rendered directly to the consumer are hardly amenable to this kind of treatment. In the case of house-rent the statistical data available are generally unsatisfactory and a somewhat rough approximation had to be made and rent was calculated on the basis of urban statistics only. Further it assumes that the differences between one province and another are not such as to vitiate the application of averages based on all-India figures to particular industrial centres. It also ignores differences between the mode of living of the industrial classes and that of the population of India as a whole. The Government of India were themselves aware of these defects and pointed out that while "the method discussed above afforded the only means of constructing an index number with the material already available, no reliance could be placed on index numbers so constructed until they have been checked by the collection of family budgets." Among the different index numbers published in India, that for Bombay City is the only one which uses this method, and even there "a fresh index number on a new base period using weights ascertained by a family budget enquiry" is soon to supplant the present index number. One thing must be noted in this connection as it has given rise to a certain amount of confusion. The mass units are not the same as weights. Weights are independent of units of quantity, but not so mass units. The mass units cannot be added together, irrespective of the units, viz., maund, seer or lb. in which

they are expressed. The relative percentage expenditure on each group (food, clothing, fuel and lighting and rent) cannot be estimated by the respective ratio of the number of mass units in each group to the total mass units in all groups. Even supposing that the mass units of all items are reduced to a common unit e.g., a maund (which is hardly possible in the case of house-room), the relative percentage expenditure cannot be assumed to be the same as the relative amounts of consumption, as all the items are not of the same price. Neglect of this consideration vitiates much of the criticism directed against the adoption of this method in Bihar and Orissa in their (B. & O.) bulletin dealing with this subject. From the mass units we can, however, easily deduce the weights, by multiplying the mass unit of each item by its price and finding out what proportion this product bears to the aggregate expenditure. The classification of the items together with the units of quantity and mass units, as suggested by the Government of India is given below:

Articles.	Units of Quantity.	Mass Units in Crores.	Articles.	Units of Quantity.	Mass Units in Crores.
<b>I Food.</b>					
<i>(a) Cereals.</i>					
Rice	Maund	70	Chillies	Maund	16
Wheat	"	21	Turmeric	"	16
Wheat flour	"	1	Betel-nuts	"	16
Barley	"	8	Tamarind	"	16
Jowar	"	11	Vegetables.		
Bajra	"	6	Potatoes	Maund	11
Ragi	"	6	Brinjals	"	
Maize	"	7	Others.		
<i>(b) Pulses.</i>					
Gram	Maund	10	Plantains etc.	Maund.	6
Arhar	"	7	Onions	"	3
Kalai (kulthi)	"	3	Mustard oil	"	14
Masur	"	2	Cocoanut oil	"	
Khesari	"	2	Gingili oil	"	
<i>(c) Other articles of food.</i>					
Raw sugar	Maund	7	II Fuel and lighting.		
Refined sugar	"	2	Coal	Maund.	
Tea	"	16	Firewood	"	48
Salt	"	5	Kerosine oil	Cases	5
Fish	Seer	25	<b>III Clothing.</b>		
Meat (beef)	"	28	Dhotis, Saris and Chadars.	lbs	27
Milk (mutton)	"	38	Shirtings and longcloth.		25
Ghee	Maund	14	Nainsooks, etc.,		86
	"	13	IV House-rent	per month	10

(B) We come to the second method of weighting which may be called the standard budget method. It depends upon the collection of a large number of family budgets relating to the class of people whose cost of living we want to ascertain. On the strength of these budgets we arrive, by means of averages, at a standard or representative budget, setting against each item the average expenditure on this head. The proportion which expenditure on a particular item in the standard budget bears to the total expenditure in the budget indicates the weight to be attached to this item. The accuracy of this method of weighting would depend upon the representative character of the budget collected. The standard budget, like army clothing, though does not fit any one family perfectly, yet is made to serve for all. This method of weighting has been most widely adopted in India as in other countries of the world, inspite of the fact that, as Prof. Taussig points out, rent and the miscellaneous items present considerable difficulty under this method. We shall discuss in detail the weights assigned to different items in the Indian indices at the conclusion of our discussion on methods of weighting.

(C) There is still another method of weighting which may be called the theoretical budget method. The standard budget method would fail if the actual distribution of expenditure comes to be materially different from the distribution in the standard budget. It is to meet a rapid change in the habits of consumption or in the commodities available for consumption, that the theoretical budget method has been evolved. Under this method the nutritive value of various food commodities is expressed in calories and the minimum quantities necessary to maintain human life or health are taken into consideration. The quantities of albumen, fat and carbo-hydrates necessary to maintain the health of adult males and adult females engaged in various kinds of work, of children of various ages and of old people no longer at work, are evaluated on the basis of medical research. Chemical analysis of various kinds of food serves to determine the food items which supply those requirements, and from the data obtained the food

items necessary for a working class family of average size may be determined. The theoretical budget method suffers from the defect that in practice its application is limited to the food group. For the remaining groups of commodities which enter into the cost of living, some other method must be used. Further, families do not take into consideration only the nutritive value of the different items of food as established by scientific investigation; and unless account is taken of actual consumption the method will give unsatisfactory results. Lastly, it may be noted that under this method only the minimum of consumption is taken into account and therefore it will fail to measure the rise or fall in the cost of living of those who are in affluent circumstances. It may be of some use in measuring the cost of living of a prisoner in jail, but not of a free man whose conduct is not always guided by rational considerations.

(D) The next method may be called the method of fluctuating weights. Under this method the weights are calculated afresh for every year, so that not only may the prices of the item in a particular year be different from the prices of the base year, but also the weights attaching to the different items in that year be different from the weights in the base year. This method may be used both with the aggregate consumption method and the standard budget method. The objections to this method are firstly, that it involves an enormous amount of labour and that the chances of error are great, particularly where reliable statistics are not available; secondly, simply a change in the weights would alter the index number without any change in price.

(E) Another variety of fluctuating weights is used where, in constructing an index number each article or service is weighted according to the value of the amount consumed in the current year at base prices. Here instead of the weights being based on the value of the amounts consumed in the base year at base prices and remaining fixed from year to year or month to month, the weights fluctuate from year to year or month to month and are based on the value of the amount consumed in each year at the base prices.

Here the difficulty is that the index numbers for any two years other than the base year are not strictly comparable.

When the method of construction of index numbers is the aggregate consumption method, the above scheme of weighting would mean that the index is calculated from the ratio between the quantities consumed in a current year or month at current prices and the same quantities consumed in the base period at base prices.

(F) A still different kind of fluctuating weight method proposed independently by Dr. Marshall and Prof. Edgeworth is to take the arithmetical average of the consumption of each commodity in two successive years in calculating weights in each of these two years. "It assumes that a third composite intermediate between the two composites strictly appropriate to the two positions is approximately appropriate to both of them." (Keynes). This scheme can be used both with the standard budget method and the aggregate consumption method of compiling index numbers.

(G) There is a further variety of fluctuating weights used in connection with the chain method. Here, as between any two years the method used is that indicated under (B). But it differs from (B) in that the weights instead of being fixed for all years subsequent to the base year, fluctuate from year to year, the weights of the preceding year being always utilised for calculating the index of the succeeding year. This method too can, as in the other cases of fluctuating weights, be used with the aggregate consumption method. The merits of this scheme have already been discussed in another connection.

(H) Lastly, the ideal formula of Prof. Fisher gives still another kind of fluctuating weights method. It is really a cross between methods (G) and (E). This method has already been discussed in a different place and its merits and demerits indicated.

The above is by no means an exhaustive list of the different ways in which weights have been calculated and used in constructing index numbers. But they are sufficient to indicate some of the prominent methods. On ultimate analysis it proves that weights, in every case, are based on the importance of an item

in the money economy of the individual, family or the community, though the methods of utilising them may be different. As regards fluctuating or annually changing weights it may be pointed out that the device is an attempt to solve the difficulties arising from the fact that the amounts of the different commodities consumed by the representative family are likely to change from time to time. One solution of this difficulty is, as we have seen, to recalculate the weights at intervals of ten years. But under this solution the indices in a particular decade lose all comparability with the indices of the previous decade. But neither of these solutions can tackle properly the difficulties arising from the invention of new articles or a change in tastes. With regard to annually changing weights it may be noted that index numbers utilising them neither measure the varying cost of a constant amount of goods nor the varying amount of goods which a rupee will buy. But since the importance of price fluctuations depends largely upon the accompanying changes in the quantities of goods bought, there is use for index numbers that do not attempt to measure the price factor in isolation. There is the further question as to whether weights should be adjusted to the importance of the commodities as such or whether there should also be taken into account the importance of these commodities as representatives of certain types of price fluctuations. Thus the Burma report points out that though the weights are based on the monthly consumption of an individual or family, yet they must not be taken to represent the actual consumption of the commodities in question. Some commodities have been omitted and others have been combined and represented by one commodity. Potatoes and onions are the only two vegetables represented and their price fluctuations are supposed to represent the price fluctuations of vegetables and fruits as a whole. The Bihar and Orissa report points out that for calculating weights prices for '*arhar dal*' have been made to represent the group pulses other than gram, i.e., *arhar*, *masur* and *khesari*. Spices are represented by onions and vegetables by potatoes. While on the subject of weights, it may be mentioned

that the weight of a particular item having been ascertained, it is not always necessary to multiply the price by the weight in calculating index numbers. Another way of utilising weights is to include as many varieties of a particular item in the index number as its weight justifies. Thus in the Bihar and Orissa index, three varieties of rice are included; in the Burma index, three varieties of fish; in all the indices except Burma, two varieties of sugar. But if no separate weight is given to each variety, the relative importance of the different varieties in the economy of the family may be disturbed.

We now come to the weights used in the Indian indices. Except in the case of Bombay City, where the mass unit method is still in use, every Indian index uses the standard budget method of weighting. Where in a province the population is not homogeneous, different schemes of weighting are used for different classes of labourers. Thus in the Bombay Presidency, the labour office uses three sets of weights for Bombay City, Ahmedabad and Sholapur respectively. In the Burma index four sets of weights have been calculated for different classes of labourers in the same city, viz., Rangoon. One relates to the Burmese labourers; the second to Tamils, Telugus and Uriyas; the third to Hindustanis; and the fourth to Chittagonians. The weights are based on family budgets in the case of the Burmese and on individual single-man's budget in the other cases. The reason for this is that the non-Burmese labour is migrant labour and it is usual for the immigrant not to take his family with him. In fact out of a total population in Rangoon in 1921 of 341,962 as many as 189,334 were Indians. In the Central Provinces index the weights for Nagpur labourers are different from those for Jubbulpore labourers. In Bihar and Orissa four sets of separate weights have been calculated for the six centres for which indices are published. One relates to Biharis proper and applies to Patna, Monghyr and Muzaffarpur, another to Jharia, another to Jamshedpur and the fourth to Uriyas at Cuttack. The weights assigned to the different groups in the Indian indices are as follows:—

Centres.	FOOD.					Fuel and Lighting.	Clothing.	House-rent.	Miscellaneous.	Total.
	Cereals.	Pulses.	Other articles of food.	Total food.						
Bihar and Orissa.	Patna, Monghyr and Muzaffarpur.	54.55	8.45	19.00	83	5.00	18.00	..	..	100
	Jharia	47.50	7.50	31.00	86	0(free)	14.00	..	..	100
	Jamshedpur	39.60	8.40	28.00	76	11.00	18.00	..	..	100
	Cuttack	60.50	13.50	18.00	87	5.00	8.00	..	..	100
Burma.	Burmese	..	..	..	59.2	4.9	11.3	13.9	10.7	100
	Tamils, Telugus and Uriyas.	..	..	..	50.7	5.7	6.5	8.0	29.1	100
	Hindustanis	..	..	..	61.8	7.8	8.1	11.0	11.4	100.1
	Chittagonians.	..	..	..	61.6	5.1	8.1	9.1	16.2	100.1
Central Provinces.	Nagpur	36.82	6.41	20.87	64.1	9.62	10.70	15.58	..	100
	Jubbalpore	35.40	6.68	23.92	66.0	7.95	10.86	15.19	..	100
Bombay Presidency.	Ahmedabad	33.12	4.46	26.12	63.7	7.7	11	13.2	4.4	100
	Sholapur	33.04	4.72	21.24	59	12.1	14.5	7.2	7.2	100
	Bombay City	46.6	4.9	30.5	82	4.8	4.2	9.0	..	100

In the above table the weights for Bombay City have been calculated by finding out the proportion which the mass unit X price

for each of the different groups in July 1914 bears to the grand total in July 1914. At Nagpur and Jubbulpore weights have been calculated for house-rent and miscellaneous combined. The Bihar and Orissa indices do not include, as we have already seen, house-rent and miscellaneous items. The detailed weights for cereals, pulses and other food articles in the Burma indices are not just now available to me. If we examine the table we find that the weight of all food articles varies from 87 in the Cuttack index to 50·7 in the Rangoon index for Tamils, Telugus and Uriyas.

This is to be mainly accounted for by the fact that in Burma, all the weights except those for the Burmese labourers, are predominantly on the basis of single man's budgets and naturally the Uriyas (Telugus and Tamils as well) in Rangoon spend a lower percentage of their income on food than the Uriyas living with their families at Cuttack do. Secondly, the weights assigned to a particular group in the different provinces are not strictly comparable, inasmuch as some provinces would include many more items under a particular group than another. Thus even in the same province (C. P.) the expenditure on items included in the food group formed 96·9 per cent of the actual expenditure on food in the base period in the case of the Nagpur index, while it formed 93·3 per cent in the case of the Jubbulpore index. The expenditure on the entire list of items included in the different groups formed 91 per cent of the actual expenditure of the family in the base period in the Ahmedabad index and only about 80 per cent in the case of the Jubbulpore index. Thirdly, there is the well-known law (Engel's Law) that the greater the earnings a group of labourers earn, the smaller will be the percentage of those earnings spent on food. The earnings in Burma are higher than in any province of India and in this connection the report of the Royal Commission on Labour in India is worth quoting. On page 204 of the report they point out, that "Wages are lowest in Madras, the Central Provinces and the United Provinces; the provinces to the east of this group, namely Bengal and Bihar and Orissa, have a higher level, and so have those

to the west, namely, the Punjab and Bombay. Bombay comes first of the Indian provinces, while Burma has a still higher level." Fourthly, apart from the size of the income, differences in the race, religion and habits of the workers exercise a considerable influence on the quality of and the expenditure on food, clothing etc. Thus vegetarians, such as most of the Hindus are, can manage with a smaller percentage expenditure on food than non-vegetarians, such as Muslims. In this particular instance, however, this consideration is not important, because both the indices refer to Uriyas (or Tamils and Telugus whose habits of life are similar to those of Uriyas and hence are put in the same class with them in the Rangoon index). Fifthly, it may be noted that in calculating weights the Burma authorities adopted the rule that "when commodities were bought on credit at prices exceeding the market price, the market price was entered against the commodity and the excess entered in the miscellaneous group, this excess being considered as interest on debt." I do not know whether the other provinces follow the same practice. If not, in view of the fact that "almost all families (specially referring to Bihar and Orissa) make their purchases on credit and a very small proportion buys on a cash basis," it is natural to expect that the weights attached to food articles would be lower in Burma than in other parts of India. Some little influence on the percentage expenditure on the various groups of items might have been exerted by the average size of the family among the classes to which the indices refer. For purposes of strict comparison, therefore, the representative family, in different centres, should be reduced to a uniform consumption unit. Different scales are available for this purpose, such as Engel's quiet system, Lusk system (used by the Inter-Allied Scientific Food Commission), Atwater system etc. Thus under the Lusk and Atwater Systems.

## Lusk index.

Male over 14 is taken as 1'00 "person"    Male over 16 is taken as 1'00 "person"  
 Female over 14 is taken as '83 "person"    Female over 15 is taken as '8 "person"  
 Child 10-14 is taken as '83 "person"    Boy of 15-16 is taken as '9 "person"  
 Child 6-10 is taken as '70 "person"    Boy of 13-14 is taken as '8 "person"  
 Child under 6 is taken as 50 "person"    Girl of 13-14 is taken as '7 "person"

## Atwater index.

Under the above systems only food consumption is taken as the basis of comparison, but there are other systems (the German and the Australian) under which account is taken of other groups of articles as well.

When we turn to fuel and lighting we find that the weights range from zero in the Jharia index (where there is no expenditure on this group) to 12.1 in the case of Sholapur. In spite of the close uniformity in the nature and number of articles included under this head in the different indices, the differences in weights are natural, because differences in geographical situation of particular centres would make great differences in the prices of coal, firewood, charcoal etc. With regard to the clothing group we find the same wide variation, the range here being from 4.2 in the case of Bombay city to 14.5 in the case of Sholapur. The items included under this head in the Bombay city index are much smaller than those in Ahmedabad and Sholapur. In the case of house-rent, the weight in the Rangoon index for the Burmese labourers is the highest i.e., 13.9 and is almost half i.e., 7.2 in the case of the Sholapur index. House-rent does not figure in the B. & O. indices at all on the ground that it is not a serious item in this province. It may be pointed out, however, that in the memorandum submitted by the East Indian Railway to the Labour Commission, it is calculated on the basis of 213 family budgets collected from railway workers in Bihar that 1.8 per cent of the family income is spent on house-rent, though it is admitted "the expenditure on house-rent is not sufficiently representative as most of the families considered either live in their own houses or in quarters provided by the Government free of rent." One reason why house-rent commands a large weight in the Burma index is due to the practice followed there in calculating weights. Thus "where a house is owned by the worker, an estimate of the net revenue which an independent owner of the house would receive was added to the income and the amount which a tenant would have had to pay for the house recorded as expenditure under rent. Where free quarters are supplied, they are dealt with in a similar manner." In any case

it is quite reasonable to expect that the importance of house-rent in the family budget would depend on whether the place of work is a congested city like Bombay or Rangoon or whether the workers live in more or less rural surroundings like Muzaffarpur, Monghyr, Sholapur etc. In the miscellaneous group we find weights ranging from 4.4 in Ahmedabad to 29.1 in Rangoon for Tamils, Telugus and Uriyas. The high weight in Rangoon is possibly due to the fact that though expenditure on liquor is appreciable specially among the lower classes of labourers, it is not included in the index of any province except Burma and even there, only in the index for Tamils, Telugus and Uriyas. This group is possibly the most unrepresentative of working class expenditure and only a few articles under this class lend themselves to regular price quotation. Thus though 96.9 per cent of the actual expenditure on food, 98.9 per cent of the expenditure on fuel and lighting, 74.8 per cent of that on clothing is covered by the items included under these heads in the Nagpur cost of living index, only 15.3 per cent of the actual expenditure on the miscellaneous articles is covered by the items quoted. The corresponding percentages in the case of Jubbulpore are 93.3, 98.1, 70.6 and 18.2. For purposes of comparison it may be noted that the weights attached to the different groups in the British cost of living index are (A) food, 60; (B) fuel and light, 8, (C) clothing, 12; (D) rent, 16; (E) other items, 4. Taking all the four provinces together the corresponding Indian weights work out at something like 69, 7, 10, 10, and 13. For the purpose of index numbers it must however be remembered, as Prof. Bowley has pointed out, that errors in prices have much greater influence on a weighted average of price ratios than errors in weights. When once the weights have been reasonably estimated, provided the price ratios are not very unequal, the errors in weights can frequently be neglected. This has been tested by Prof. Findlay Shirras in his "Working Class Budgets—Bombay" pages 39—40. The Burma report points out that "in very few of the commodities, does even 100 per cent error in the weight produce more than 1 per cent error in the index." Further as a rule the

difference between the weighted and unweighted average decreases as the number of articles included increases (Dearle—The Cost of Living, page 43).

We next pass on to the problems of averaging or aggregating the prices or price-relatives of the different items in the cost of living index. There are several ways in which the average of a number of items may be taken, such as:

- (A) The arithmetic mean, i.e., the sum of the prices or price-relatives divided by their number.
- (B) The geometric mean, i.e., the prices or price-relatives multiplied together and the  $n$ th root taken, where  $n$  represents the number of items.
- (C) The median, i.e., the midmost price or price-relative which divides the whole number of cases into two equal groups, half above the median and half below.
- (D) The mode which has been defined by Prof. Bowley as that value of the graded quantity(wages, years, rise of prices etc.) at which the instances are the most numerous.
- (E) The harmonic mean which Prof. Kinley defines as the reciprocal of the arithmetical average of the services of prices.

The geometric mean has two great merits. Firstly, unlike arithmetic mean, it is not in danger of distortion from the asymmetrical distribution of price fluctuations. There is no limit to the possible percentage rise in prices, but the possible fall can, on no account, exceed 100 per cent. Thus extraordinary advance in prices would raise the arithmetic mean more than extraordinary fall in prices would depress it. If one commodity rose tenfold in price while another fell  $1/10$  of the old price, the arithmetic mean would show an average rise of 405 per cent (the index being 505), while the geometric mean would show no change at all. This consideration is particularly important where there is no conscious weighting of items. The tendency of rise in prices to predominate over fall in prices is kept in check with a geometric mean by the fact that

geometric mean is always smaller than arithmetic mean. Secondly, under a geometric mean the base can be shifted from one period to another without producing results that seem inconsistent. Thus suppose the price of rice falls from Rs. 6 per maund in 1914 to Rs. 3 in 1933 while the price of sugar remains constant at Rs. 8 per maund. Then on the basis of 1914 prices = 100 we have:—

	1914	1933
Rice	...	100      50
Sugar	.	100

Taking the arithmetic average we have the following indices; 1914—100; 1933—75 and taking the geometric average we have 1914—100; 1933—70.71. Now if we change the base to 1933 we have the following index:—

	1914	1933
Rice	...	200      100
Sugar	...	100

Here the arithmetic mean indicates the following indices; 1914—150; 1933—100 and the geometric mean indicates; 1914—141.42; 1933—100.

Thus on 1914 base, with arithmetic average, we have a fall in prices between 1914—1933 of 25 per cent and, with geometric average, a fall of 29.29 per cent. But on 1933 base, with arithmetic average, we find in 1933 a fall of 33½ per cent from 1914 prices and with geometric average, a fall of 29.29 per cent from 1914 prices. The fall of prices in 1933 with a geometric average is the same whether 1914 prices are taken as 100 or 1933 prices as 100. But with arithmetic average the fall in the one case is 25 per cent, in another 3½ per cent. Against geometric average it may be said that it is more unfamiliar, more laborious to calculate and has no direct bearing upon changes in the purchasing power of money as the arithmetic average and the weighted aggregate of actual prices have.

Medians are very easy to calculate, but they are not perfectly reversible i.e., they cannot be shifted from one base to another by

simple division without ambiguity. Medians of different groups cannot be combined, averaged or otherwise manipulated with ease as can the arithmetic mean. When the number of items to be averaged is small, medians are erratic in their behaviour. For in such groups there is often a considerable interval between the midmost price or price-relative and the prices or price-relatives standing next above it and below it. No change in any of the items, large or small, can alter the position of the median unless it shifts an item from the upper half of the list to the lower half or vice versa. Where the articles are few the jumps in the median may be abrupt. Where the number of commodities included is even the position of the median is indeterminate.

Arithmetic averages are easy to calculate and familiar to all. They can themselves be averaged and used for further computations. But they are liable to distortion from the occurrence of a few extremely high prices or price-relatives; they are not reversible and they may conceivably give contradictory results, concerning the direction in which prices are moving, according as relative prices are computed on one base or another. Thus let us assume that the price of rice is Rs. 6 per maund in 1914 and Rs. 3 per maund in 1933 while the price of kerosine oil is Rs. 3 per case in 1914 and Rs. 6 per case in 1933. Now on the basis of 1914 prices =100, the index for 1933 prices is 125. But on the basis of 1933 prices=100, the index for 1914 prices is 125. It would thus seem with 1914 base that prices in 1933 are higher; but with 1933 as base, the prices in 1914 would appear to be higher.

Modes and harmonic means are rarely used in computations of index numbers. Modes require grading and the apparent position of the mode depends on the accident of grading. Another objection to it is that it cannot be used, like arithmetic averages, for obtaining totals. "The harmonic mean," as Prof. Kinley points out, "is best to apply if there is a large number of low prices, and a small number of large ones, in the series."

The difficulties of choice between all these methods can be obviated by taking aggregates of actual prices of the different

items, but if this method is adopted in computing index numbers, weighting of the items is indispensable.

In the Indian indices only arithmetical averages have been used. The Central Provinces index, the publication of which was taken up in 1927, has January 1927 as base, and the indices have been calculated backwards to January 1925 and the index number for July 1914 has also been calculated, on the base of January 1927. But in order to facilitate comparison with indices published by the other provinces in India with July 1914 as base, the C. P. indices have been recalculated by making the index for July 1914 (calculated on the basis of January 1927 prices = 100) equivalent to 100 i.e., the same series of index numbers have again been expressed as percentages of the index number in July 1914. This procedure, as we have already seen, is unwarranted with arithmetical averages and might lead to contradictory results. Another example of the want of attention to the fact that with arithmetical average the bases are not reversible, is to be found in an attempt in the B. & O. report to compare the cost of living at the different centres relative to Patna, taking the cost of living at Patna in April 1922 as 100. Thus indices calculated on the base of 1909—14 prices = 100 have been recalculated by making the index thus arrived at for April 1922 equivalent to 100. This is statistically objectionable and practically useless; to give comparable results the prices of each article in the different centres should have been compared with the price of the same article at Patna for the month of April 1922 and an arithmetical average of the price-relatives thus arrived at for all the articles should have been taken to indicate the correct index. In the British cost of living index, both in computing the index for the different groups and in calculating the final index for all the groups taken together, only the arithmetical average has been utilised. The same method has been followed in combining price quotations obtained for an article from different towns and shopkeepers.

Lastly, we might notice the effect of direct taxation on the cost of living. Indirect taxation need not be considered separately as

it has already been accounted for in the increased price of the commodity or service taxed. As expenditure on direct taxation is one of the items of general expenditure of individuals, account must be taken of it in measuring changes in the cost of living. It is in some respects similar to the payment of interest charges on debt and in a country like India, where in the words of the Labour Commission "indebtedness is by no means confined to the industrial worker; (but) is in fact fairly general throughout India" and where "an industrious worker is obliged to stint himself and his family of necessities to meet interest charges," much may be said in favour of including it as an item in the cost of living. It is only the difficulty of getting accurate figures under this head, as in the case of expenditure on liquor, that prevents its incorporation in the cost of living index. Taxation however differs from other forms of expenditure inasmuch as it is compulsory. Where goods or services previously provided by the individual are supplied by the state and taxation is increased by an amount equivalent to the price previously paid, no special allowance need be made on this account. If there has been an increase or decrease in the quantity of goods and services rendered by the state then for the purpose of calculating index number of the cost of living, the question of the necessity of changing the weight applied to the item "taxation" must be considered in the same way as if there had been a change in the relative quantities consumed of any other goods and services included in the index numbers. One special difficulty in allowing for direct taxation is that whereas prices paid for goods and services are usually irrespective of the income of the purchaser, the direct taxation varies according to the income of the recipient and the scale is graded on a progressive basis. There are three different ways in which account may be taken of such taxation.

(A) In the first method attention is concentrated solely on the changes in the scale of taxation as established by law, and no account is taken of the actual incomes of the various members of the community. Thus if there is an increase of 20 per cent

all round in the scale, then the tax item will be represented by 120, if it was represented by 100 in the base year. Here no account is taken of changes in the actual level of income of the community whose cost of living index is under consideration. Further, no allowance is here made for the fact that changes in the different parts of the scale of taxation may be in different proportions.

(B) In the second method attention is directed to the fact that with changes in the cost of living the nominal incomes are also likely to be changed, and various members of the community move into different nominal income groups in the scale of taxation. Thus, if in the base year incomes of Rs. 2,000 per annum paid Rs. 50, while incomes of Rs. 4,000 paid Rs. 150, then in any particular year if it is found that the income level has moved up from Rs. 2,000 to Rs. 4,000, then, if the taxation in the base year were represented by 100, the taxation in this particular year will be represented by 300, irrespective of any fresh change in the existing scale of taxation. If there has also been a change, in the meanwhile, in the scale of taxation, it can easily be provided for. Allowance can thus be made, under this method, both for changes in the scale of taxation and in the nominal incomes within the scale.

(C) In the third method attention is directed to the real burden of taxation. It is a further refinement on the second method by allowing for changes in the level of prices. If with an increase of the income from Rs. 2,000 to Rs. 4,000, the level of prices has doubled, then the real tax burden has only increased from 100 to 150, assuming that incomes of Rs. 2,000 and Rs. 4,000 pay Rs. 50 and Rs. 150 respectively in taxes. Changes in the scale of taxation may also be allowed for, if wanted. This method is, however, not suitable for incorporation in the compilation of index numbers, as the very object of such index numbers is to isolate the money factor from other factors.

No account is taken of direct taxes in the Indian cost of living index, for the very good reason that the class of workers whose cost of living index is prepared rarely pay direct taxes to the state (if land revenue is excluded).

## ECONOMIC SURVEYS IN NETHERLANDS INDIA

BY

J. S. FURNIVALL

The Englishman is proverbially inclined to "muddle through" but the Dutchman likes to know, and to understand, what he is doing; prides himself on being thorough, and does not mind much if people think him slow. Both these characteristics appear in the series of economic surveys conducted by the Dutch in Netherlands India during the past two generations, all conducted with great thoroughness, and sometimes with a patience that has disregarded the progress of events. Although differing greatly in character and scope, they have this in common, that they have examined economic conditions not from the standpoint of production but from the standpoint of the consumer; they have been Welfare Surveys. This gives them a special interest at the present time, when economic surveys are contemplated in British India, for, in addition to providing a vast store of information on social and economic life, and reflecting the successive stages of colonial policy, they illustrate the gradual evolution of a technique for studying and promoting human welfare in a tropical dependency.

From 1830 to 1860 Java was administered as a State Plantation on the so-called "Culture System", which had been directly inspired by the slave plantations of America and had a close resemblance to slavery. The Native officials were the plantation

overseers, and the European officials found it prudent not to know too much of what was going on. In 1848, however, the Liberal Party attained power in the States General and, during the next half century, gradually formulated and applied a liberal colonial policy based on free trade, free land and free labour. Their land policy was directed towards giving free individual possession of the land to the Native,—and to the Capitalist. But when, in 1865, Van de Putte failed to carry a Bill along these lines, his Conservative successor as Colonial Minister, P. Mijer countered by guaranteeing the Natives in the secure enjoyment of their customary rights. But, as no one knew their customary rights, it became necessary to ascertain them and enquiries into Javanese tenures were instituted and conducted, with typical thoroughness and patience, over thirty years, from 1867 to 1896. The results of the enquiry were summarised in a Report in three volumes which appeared respectively in 1876, 1880 and 1896.<sup>1</sup> Meanwhile, however, the land problem had been solved by the Agrarian Law of 1870.

The solution of the land problem brought the labour problem to the fore. Under the Culture System, as under the East Indian Company, compulsory labour had been general; the people had been required not merely to maintain irrigation, roads and bridges, but also to cultivate coffee, sugar and other export crops at nominal wages which might never reach them. On the new private estates, the use of compulsory labour would have been slavery undisguised; immoral and unprofitable. The private employers, who could find work for all the labour in the market, looked with jealous eyes on government demands for labour, and objected to the competition of state plantations using cheap labour. Both liberal doctrines and economic circumstances required the limitation of compulsory services. The people were liable to render services to the State and to government officials (*heeren diensten*)

<sup>1</sup> *Eindresumé (sic) van het Onderzoek naar de Rechten van den Inlander op den Grond op Java en Nadoera; by W. P. Bergsma.*

and also to the Village (*desadiensten*).<sup>2</sup> These two kinds of service, although not distinguished by the people, were dealt with in separate enquiries, less protracted than the enquiry into tenures, but not unduly hurried. An enquiry into compulsory services in general, instituted in 1888, was summarised in a Report<sup>3</sup> published in three volumes between 1901 and 1903; this was followed by an enquiry into the pressure of village services, instituted in 1902, on which a Report<sup>4</sup> appeared in 1905. These enquiries and reports bring the period of liberalism to its logical conclusion. The liberal policy of the 19th century had been negative; it had aimed at breaking down restrictions on freedom of land and labour. The new century coincided with the adoption of a new policy.

This new policy was an expression of new economic conditions. Hitherto the manufacturers and merchants of the Netherlands had looked on Java as a market, and had favoured a liberal policy which would open up this new market for their wares. But it served them also as a new field for the investment of their profits. Towards the close of the century, especially after the disasters of the Eighties had delivered the planters over to the banks, private enterprise had given way to joint-stock enterprise, and the new combines invested huge sums in developing the resources of the country. Private exports of merchandise from Netherlands India, almost all the produce of European estates, rose from 158 million gulden in 1890 to 201 million in 1895, and to 231 million in 1900. This is a rough measure of the progress of capitalist development, and points to the emergence of new problems which could not be solved by a policy of *laissez-faire*;<sup>5</sup> something had to be done about them. Money had to be spent on roads and railways,

<sup>2</sup> Meyer Ranneft and Huender, *Belastingsonderzoek*, 1926, p. 229.

<sup>3</sup> F. Fokkens. *Eindresumé v. h. Onderzoek naar de Verploichee Diensten der Inlandsche Bevolking op Java en Madoera.*

<sup>4</sup> C. J. Hasselman. *Eindverslag over het Onderzoek naar in den druk der desadiensten op Java en Madoera.*

<sup>5</sup> Cf. W. Middendorp in "The Effect of Western Influence in the Malay Archipelago, (Batavia, 1929) p. 44.

doctors and engineers were needed, and administration became more complex. These changes reacted on native society and it was becoming apparent, also, that some control must be exercised over capitalist development, even in the interests of the capitalists themselves. They had inveighed against the iniquities of the Culture System, and now their curses were coming home to roost. The novel, *Max Harelaar*, and other writings of the same school had discovered in the official world a new vein of sympathy for the people under Dutch protection; the young officers came East as crusaders, idealists who thought it a privilege to share in "the great task to the Netherlands in Asia."<sup>6</sup> They were not content merely to leave things alone. The Hasselman enquiry had been directed towards relieving "the pressure" of village services; the new men set themselves to conserve (*versterigen*)<sup>7</sup> the village as a social unit, and were led on to remodel it on modern lines. The political atmosphere at home favoured the new tendency. In the States General, the Conservatives had been replaced by Clericals and the Liberals by Progressives; and both parties had developed a social conscience. Socialism was in the air, although as yet it had not made much way in Parliament. All these elements in combination found expression in a new colonial policy which Dutch writers often term ethical, but which may be described, less controversially, as constructive.

In connection with the new policy there are two outstanding names: Van Kol and Van Deventer. Van Kol had been in the Indian service as an engineer from 1876 to 1892<sup>8</sup> but, on being declared unfit for further service, entered Parliament in 1897. Van Deventer also knew the East, where he had been a judicial officer from 1880 to 1885 and an advocate until 1897. In 1899 he roused the public conscience with a powerful article *Eene*

<sup>6</sup> Cf. Meyer Ranneft. *De Controleurstaak op Java*; *Tjd. B. B.*, 1915.

<sup>7</sup> Meyer Ranneft and Huender *Belastingsonderzoek*, 1926, p. 122.

<sup>8</sup> Idema. *Part Geschiedenis van Ned.-Ind.* 1891-1918, (1924) p. 58.

*Eereschuld* in *De Gide*<sup>9</sup> in which he argued that the Netherlands owed a debt of honour to Java for the vast sums drawn as tribute contrary to the provisions of the Accounts Law of 1867. Van Kol, who had already constituted himself the foremost champion of the Javanese in Parliament, took up the cry, and in his speech on the estimates in September, 1899, proclaimed that the increasing impoverishment of the Javanese could no longer be disguised. Cremer,<sup>10</sup> a Liberal of the old school was then Colonial Minister, when the Clerical Party came into power in 1910, social betterment in the colonies took a leading place in its programme. The Queen's Speech in September, 1901, might almost have been drafted by Van Deventer or Van Kol. "The diminishing welfare of the people of Java" she said, "is receiving my particular attention. I propose to institute an enquiry into its causes."<sup>11</sup> This pronouncement marks the beginning of the constructive era in colonial administration, and, for a policy of social construction, one essential requirement is a knowledge of the facts.

Very little was known at that time about the facts of economic life in Java. Since 1825 there had been an annual report on trade; since 1840 the annual budget had been published; since 1851 there had been an annual Colonial Report with a statistical appendix; and during the Sixties there had been an attempt to compile cadastral statistics. But neither the trade reports nor the budgets threw much light on social conditions; the cadastral statistics had been abandoned as untrustworthy; and most of the figures in the Colonial Reports were unscientific estimates. From 1880 onwards, district officers had furnished population returns, but there had never been a Census. The neglect of statistical data was natural. So long as people had trusted that the application of liberal principles would ensure the greatest happiness of the greatest number, accurate statistics had been superfluous. Now that faith in these

<sup>9</sup> *ib.* pp. 133, 134.

<sup>10</sup> *ib.* p. 131.

<sup>11</sup> *ib.* p. 158.

principles was shaken, statistics assumed a new importance, and for the next generation a succession of enquiries aimed at elucidating the facts.

As a preliminary measure three experts were selected to report on various aspects of the colonial problem; Van Deventer<sup>12</sup> was charged with reporting on the economic condition of the people; D. Fock,<sup>13</sup> later Colonial Minister and Governor-General, was to submit proposals for their betterment; and Dr. E. B. Kielstra<sup>14</sup> was to investigate Indian finances. All three Reports appeared in 1904.

The Report of Van Deventer is of special interest as "a first attempt to use statistical material as a basis for depicting the economic life of the people."<sup>15</sup> He compares the growth of the population with the expansion of cultivation and with the increase in the number of cattle, and concludes that the population has far outstripped the food supply and the number of cattle available for cultivation. Little is said of crops other than paddy because at that time the people had hardly taken to the cultivation of export crops. The beginning of co-operation among deep-sea fishermen is noticed as a welcome sign of progress, but native industry in general is left to an appendix contributed by G.P. Rouffaer. Van Deventer estimates the income per family at 80 gulden and the taxation, including taxes in labour, at 16 gulden, but puts the cash income at 39 gulden and the taxes in money at 9 gulden per family. Altogether it is a gloomy picture that he draws and very much the picture that he could, and would, have drawn without statistics; for the statistical data then available were barely adequate to support a preconceived opinion and of no use for correcting a wrong impression: He concludes his essay with some proposals for enhancing welfare; but these are characteristic of the period; he regards social construction as purely a mechanical

<sup>12</sup> C. Th. van Deventer *Overzicht v. d. Econ. Toestand der Inl. Bevolking van Java en Madoera.*

<sup>13</sup> D. Fock *Beschouwingen en Voorstellen ten Verbetering v. d. Econ. Toestand der Inl. Bevolking van J. and M.*

<sup>14</sup> Dr. E. B. Kielstra, *De Financien van Ned. Ind.*

<sup>15</sup> Huender. *Overzicht v. d. Econ. Toestand van J. en M. (1921)* p. 2.

process and has nothing to suggest but more efficient administration and the greater employment of natives in the public services.

Whereas the task of Van Deventer was to assess the resources of the people, Fock considered methods of increasing their resources. He touches on education and, with greater emphasis, on the Chinese problem, noting how the Chinese cut off the native from possible openings in industry and commerce, and advocating a stricter control over Chinese immigration. But his main concern is with measures, which will have an immediate effect. He distinguishes measures which might properly be financed by loans, and others which, if the Debt of Honour be admitted, might be undertaken with help from the Netherlands. Under the former head he classes projects which should yield a return sufficient to pay off the loan, such as remunerative irrigation works, the construction of railways and the resumption of Private Concessions (*Particuliere Landerei*). Setting these aside he considers projects which would benefit the people but could not be conducted on a commercial basis, such as the promotion of agriculture by unremunerative irrigation, the provision of credit facilities, the opening up of new sources of income and the encouragement of industrial activities.

Both these reports give a subjective impression of the position and potentialities of the Javanese at that time, but their chief value lay in showing how much there was to learn before undertaking welfare measures. Meanwhile the enquiry promised in the Queen's Speech had been instituted. The Governor-General appointed<sup>16</sup> a Committee, with a senior Resident, H. E. Steinmetz, as its Chairman, to enquire into "the causes of diminishing welfare in Java, excluding the Native States (*Vorstenland*) and the Private Concessions." This became known as the Diminishing Welfare Committee (*Mindere Welvaart Commissie*). On 24 May, 1904, a bulky questionnaire, containing no less than 533 questions, was addressed to Residents with instructions that they were to form

<sup>16</sup> Decree of F. G. 15th October, 1902. No. 81.

a Residency Committee for each Residency and a Sub-divisional Committee for each Sub-division. The original idea was that the Sub-divisional Committees should collect information under the 533 heads of the questionnaire and submit the results for a comprehensive review by the Central Committee. But the difficulty and magnitude of the task had been under-estimated. Although the actual enquiries were completed within the year, the process of digestion dragged on for nearly ten years. The reports of the Committee were published piecemeal between 1905 and 1914 in 14 large folios with numerous appendices, 33 volumes in all. In 1914 the Committee was dissolved, but it gave birth posthumously in 1919 and 1920 to an Alphabetical Index and a Compendium.

One gathers an impression that the Committee died of exhaustion from flogging a dead horse. Once again events had moved faster than the enquiries. The information which had been gathered with so much trouble and expense was out of date before the Committee could review it. For the new century saw an unprecedented development of economic activity. The value of private merchandise exported from Netherlands India rose to 292 million gulden by 1905, to 412 million by 1910 and to 614 million by 1913. And in these exports, the natives were taking an increasing share. Then the War intervened and, by 1920 when the Compendium was published, the contents were merely of historic interest. When it had become clear in 1905 that the publication of the final results would take much longer than had been anticipated, C. J. Hasselman was placed on special duty to compile an interim summary; but even his report did not appear until 1914.

This Report<sup>17</sup> is the handiest guide to the proceedings of the Committee. Java, he says, from the economic standpoint is a

<sup>17</sup> C. J. Hasselman. *Algemeene Overzicht v. d. uitkomsten v. h. Welvaart Onderzoek, gehouden op J. en M. in, 1904-05.*

pattern book of divers samples (*een bonte staalkaart*) and the result of collecting information from a host of Europeans and Natives, differing in upbringing and temperament, on conditions varying so widely from place to place, is, inevitably, a pattern book of divers and often contrary opinion. Out of this stewpot of surmise (*brouwketed van apvattingen*) he attempted to distil a common element and, where this was impossible, was content to represent without reconciling different views. The enquiries ranged over the whole of native life. Among the matters of chief importance to the cultivator were the reactions of European enterprise on Native life and welfare, especially in respect of irrigation, the influence of Foreign Orientals, village organisation, land tenure and agricultural indebtedness. The enquiries dealt also with the progress of fisheries, industry and commerce. The 533 questions had been as comprehensive as possible. But the answers came mostly from busy officers who furnished, in such times as they could spare from their immediate official duties, hurried impressions on matters which had not previously engaged their particular attention. Hasselman arrives at his results largely by the process of counting heads; so many said this, so many said the opposite. His summary, therefore, is colourless and unconvincing; but it contains much useful information and everywhere he gives detailed references to the often valuable material in the original reports and their appendices, which he took eight years in reading and which others, with less time at their disposal, may have occasion to consult.

His general conclusion was that, both at the time of the enquiry in 1905 and subsequently, the welfare of the people was not diminishing, but increasing. Van Kol, however, in his "Netherlands India in the States General" published in 1913, continued to talk of "a desolate colony" and "emaciated provinces."<sup>18</sup> Thus, out of "the stewpot of surmise" every one could

<sup>18</sup> *Huender, op. cit.* p. 245.

choose morsels to his taste. For sound conclusions which would serve as a foundation for the reconstruction of society, new enquiries would have to be conducted on more scientific lines, and the results presented from a more objective standpoint than in this pattern book of contrary opinions. The work of the Mindere Welvaart Committee, though thorough and patient, was very largely waste of time.

Then, in the very year of the publication of the last folio and of Hasselman's Review, the War broke out. Its first effect was to cut off Java from its normal markets; the people could no longer sell their produce nor purchase their necessities. This gave a new stimulus to the encouragement of local industry. The Colonial Minister<sup>19</sup> sent Van Kol to Japan to study the rapid development of large scale industry; and the Governor-General appointed a Committee to study the industrial possibilities of Java. The development of local industry was no longer a question of merely local interest; it was not only desirable in the interest of the Javanese, but essential in the interest of the Netherlands. For some years Holland might continue to export manufactured goods but, in the long run, the Colonies would follow the example of the West, and take to providing for themselves.<sup>20</sup> If the Dutch did not open factories, the Japanese or Germans would, and the Dutch would then lose both their share in colonial produce and also in such import trade as might survive.

The conclusion of peace brought new problems. One, of immediate urgency, was the high price of paddy. The Government found it necessary to assume to control over the rice market,<sup>21</sup> and enquiries into the food supply once again demonstrated the

<sup>19</sup> *Verslag v. d. Econ. Toestand d. Inl. Bevolking*, 1924. p. 259.

<sup>20</sup> *Fabrieksnijverheid in Ned. Ind.* by Jhr. J. C. van Reegersberg *Versluys* (Batavia, 1917)

<sup>21</sup> C. Luloffs. *De Voedselvoorziening van N-I.* (1919) Jhr. C. de Savornin Lohmann. *Verbindung der Sawah padi-productie tot de dichtheid der Bevolking* (1919).

statistical deficiencies. Another problem developed somewhat later. Despite the piling up of deficits during the war the post-war boom tempted the Government to a vast increase of expenditure. When the boom ended the people had to pay enhanced taxation out of a diminished income.<sup>22</sup> Complaints about diminishing Welfare were renewed, and Van Kol in the States General used language hardly less vigorous than in 1913.<sup>23</sup> He had never accepted Hasselman's view on the findings of the Mindere Welvaart Committee and after the war he could argue that it had left the people of Java poorer than before.

And now he reached a larger audience; he could appeal, not merely to the social conscience of the Dutch but to the social consciousness of the Natives. For the changes that we have just noticed, the new importance of local industry, the high price of food and the pressure of taxation, were merely superficial. The war had effected a more fundamental change; it had transformed the whole scale of values, economic, political and human. "In 1915 autonomy was in the air" says a writer on the State Credit System;<sup>24</sup> and the opening of a representative assembly, the Volksraad, in 1918 had given expression to the principle of autonomy in political affairs. This transmutation of values opened a new line of approach to the solution of problems in colonial economics. Formerly, would-be benefacts, such as Van Deventer, had enquired what could be done *for* the people; now they studied what could be done *by* the people; not, as under the Culture System, what they could be made to do, but what they could be made to want to do. The new line of approach to the study of colonial economics was from the standpoint of demand. This implies a change of attitude which, in the nature of things, was a gradual process, but which is clearly apparent in all post-war surveys and

<sup>22</sup> G. Gonggrijp. *Schetseener Econ. Geschiedenis vsn N.-I.*, p. 217 seq.

<sup>23</sup> Huender, *op. cit.* p. 245.

<sup>24</sup> Dr. J. W. Cramer. *Het Volkscredietwesen in N.-I.* (1933). See also *Volkscredietwesen*, 1981, p. 628.

reports. These differed from pre-war surveys because the Mindere Welvaart Enquiry had shown that such surveys must be far more objective in character; but they differed still more notably in their analysis of the idea of welfare and of the methods by which it might be promoted.

This new attitude appears already in a survey of economic conditions undertaken by a junior Civil Servant, Dr. Huender, in 1921.<sup>25</sup> In some ways his work links up with pre-war surveys as he follows closely along the lines laid down by Van Deventer; he attempts to correct Van Deventer's conclusions in the light of the material collected by the Mindere Welvaart Committee and to compare the condition of the people in 1904 and 1921. "But in 1921, as in 1904, it was still impossible to conduct a detailed and accurate survey such as one might properly expect in a scientific treatise." The statistics were still incomplete, and their connotation often obscure; in regard to agriculture certain returns which Van Deventer had used were no longer compiled; data concerning public security were almost wholly lacking and the trade statistics, in the words of an English critic, were "voluminous but confused." With this apology for his shortcomings, he proceeds to deal with the subject under three heads; in the first part, he discusses the condition of the people; in the second, the pressure of taxation; and in the third, methods of betterment. It is in this third part that the post-war attitude appears most clearly.

The pressure on the means of subsistence, due to the growth of population, has been relieved, partly by the development of private industry, and partly by the improvement of irrigation and the encouragement of migration. Whereas upwards of 70 per cent of the people were wholly dependent on agriculture in 1904, the proportion has now dropped to 60 per cent. Under the head of agriculture he discusses land tenures and alienation. Then follow a survey of native industry and commerce and of the part

<sup>25</sup> *Overzicht v. d. Econ. Toestand van Java en Madoera, by Dr. J. W. Huender, 1921.*

played by the Native in European industry and commerce. He estimates the average income of a family at f 160, a figure far above the estimate by Van Deventer; but, after deducting the value of the produce used for home consumption, the balance, f 55 although higher than the corresponding estimate by Van Deventer, may have no greater purchasing value owing to the general rise of prices.

As regards taxation, he shows how labour dues have gradually been replaced by money taxes, and traces the attempts to correct the over-taxation of the Javanese in comparison with Europeans and the Natives of the Outer Provinces; he notes also a tendency to unify the principles of taxation so as to remove racial and class distinctions, and the gradual application of the principle of combining taxation with representation. A survey of taxation under different heads leads to the conclusion that the Native pays 13·2 per cent of his total income in taxation, of which f 13·50 is paid in money out of his money income of f 55. His final opinion is that the taxes may be as heavy as in 1904, and are certainly very little lighter.

So far he has followed closely in the footsteps of Van Deventer and his survey may be regarded as terminating the series of enquiries began in 1901. But in his third part he heralds the new policy in which mechanical construction is superseded by a creative impulse. He emphasizes the need for organising demand. So often the native has been made to approve and desire what the official thinks he ought to approve and desire. That, however, is not the true line of progress. "It must be the task of western rulers to create, so far as possible, new social needs and stimuli, they must try to change the mental outlook of the oriental." The practical co-operation of the Native is essential, "to get him to express himself in words and deeds must in the long run be the way to give welfare measures a chance of success." He then goes on to discuss in the light of experience what can be achieved by the machinery of Government, and arrives finally at the pessimistic conclusion that, on the one hand, Government can do little without

spending money and has already reached the limits of taxation, whereas, on the other hand, the people show no signs of a new mental outlook except in a few strikes for higher wages. The Government *can* do nothing, and the people *will* do nothing. However, most of the welfare activities of Government are of recent date and may bear fruit in time.

This survey by Dr. Huender was unofficial, and the critics of Government continued to press for an official enquiry such as had been conducted by the Mindere Welvaart Committee.<sup>26</sup> Although the Governor-General, Fock, a Progressive who had got no further than his position in 1904, stoutly maintained that "the material circumstances of the Natives were in general satisfactory," he failed to convince the Volksraad. District Officers, also, were increasingly concerned about the pressure of taxation and finally, under pressure, Government approved a short enquiry "based on existing statistics and on such information as District Officers could furnish without undue addition to their work." The Report on this enquiry appeared in 1926.

The Report begins by analysing the idea of welfare and appreciating the possibility of measuring welfare by statistics.<sup>27</sup> Welfare is a vague and relative term. "Welfare is the capacity to satisfy the wants of which one is conscious." It implies a balance between wants and their satisfaction and contains a subjective element which statistics cannot elucidate. Eastern and Western standards of welfare are quite different, and the different standards of welfare reflect different attitudes to life. The Javanese regards it as normal and not as a sign of poverty that he should live from hand to mouth; the future, for which the European provides by thrift, the Javanese leaves to fate, trusting that at the worst, he will be supported by his children, just as he supported his own parents in their old age. In such a social atmosphere, one cannot

<sup>26</sup> *Huender*, *op. cit.* p. 345.

<sup>27</sup> *Verslag v. d. Econ. Toestand der Inl. Bevolking*, 1924, (1926).

assess welfare by European standards. Again, the measurement of welfare needs elaborate statistics; but statistical measurement must always start with broad distinctions and can only attain refinement by degrees, and in Java statistical enquiries are so recent that the degree of refinement for measuring welfare has not yet been reached. And although statistical data are abundant, the figures have been compiled departmentally for departmental requirements without reference to any general idea. Ordinarily moreover they apply to the population as a whole and not to the native population in particular. Time did not allow for the separate abstraction of statistics relating to the natives only, and attempts in this direction immediately brought out their inadequacy.

The body of the Report contains two sections; one dealing with welfare factors and one with welfare indicators; a second volume contains the results of intensive enquiries in certain localities. The welfare activities are discussed in separate chapters dealing with Population, Native Agriculture, Cattle breeding, Seafishing, Industry, Trade, and Opportunities for work. The indexes of welfare taken into account are Rail and Postal Communications, the Credit System, the Pawnshops, the Savings Banks, the Consumption of Salt, and of Opium, Educational progress and Criminality. Under all these heads the Report compares the position in 1924 and 1913 and the general conclusion is that, by comparison with 1913, a normal year, the people experienced temporary difficulties in 1920 to 1922 but except for the more educated classes, have recovered from them, and in 1924 are as well off as before. "There is no question of a general decline in the standard of living, nor of millions being in a pitiable condition." The pressure of taxation was not considered as this was to be examined in a separate enquiry.

The enquiry into taxation was entrusted to Mr. Meyer Ranneft and Dr. Huender. Both had exceptional qualifications for the task and by their skill in the selection of relevant material, in the application of statistical analysis and in their lucid exposition of the facts, as well as by the soundness of their conclusions, they achieved a Report, comprehensive but concise, which has deservedly

attained classic rank among the state documents of Netherlands India. After a general outline of the economic history of Java during the 20th century, the authors discuss the economic condition of the people. They summarise the history of native taxation and consider the question of taxation both generally in respect of the State, the people and Society and particularly in respect of separate taxes. The pressure of taxation, they point out is no simple matter; whether taxes are felt as heavy or light depends on the benefits derived from them, on the means of the tax-payer, the methods of collection, the other objects for expenditure, the progress of a money economy, and, in a Dependency, on the development of nationalist feelings. In a chapter of great interest they discuss the modern Javanese village with its "hermaphrodite character" of a social organization and an instrument of government. They do not hesitate to criticise the constructive policy of the past twenty years. "Repeatedly it has been noticed that these new institutions which the people do not want much and which they barely understand are regarded as oppressive." And they quote with approval the opinions of two senior Residents. "If Government does not intervene" says one, "then every thing sinks into a quagmire, but if it intervenes, it introduces western ideas which will probably miscarry." The other would frankly revert to laissez-faire; "Keep peace and order, and beyond that . . . leave them alone."<sup>28</sup> But, even if we leave them alone, we must still keep our eyes on them; and, moreover, the policy of uplift is less resented than it was, and in the Volksraad some members favour urging the people upwards with a stick.

A similar enquiry into the pressure of taxation in the Outer Provinces collected useful information but the Reports<sup>29</sup> in three

<sup>28</sup> "Stel de landsbelangen veilig. on verder leave them alone."

<sup>29</sup> *De econ. toestand en de belastingdrul met betrekking tot de Inl. bevolking van Sumatra's Westjust.* (1928).

*ib Gewesten Oostjust van Sumatra en Lampnogsche Districten,* (1929).

*Verslag v. d. belastindruk op de Inl. bevolking in de buitengevesten.* (1929.)

volumes, are not distinguished by the same penetrating insight as the Meyer Ranneft-Huender Report.

One outstanding feature of the Meyer Ranneft-Huender Report was the masterly use of the available statistics. The criticism of the statistical material by the Committee of 1924 was still valid, but steps were already being taken to provide a remedy. In 1920 the systematic organisation of statistics was undertaken by a special office attached to the Department of Agriculture, Industry and Commerce; in 1922, this took over the compilation of the Annual Returns, formerly compiled in Holland, and in 1924 it was transformed into a Central Statistical Bureau. This compiled statistics relating to the economic situation (*conjunctuur*), prices and the cost of living, and later took over the compilation of the educational and criminal statistics. Thus the necessary machinery has been devised for an annual record of various data for the measurement of welfare.

But such machinery is useful only in so far as there is some one who can use it. Experience had shown that special enquiries by *ad hoc* Committees are better able to point out defects than to devise remedies. This difficulty has been solved by the constitution of a permanent Committee<sup>30</sup> to enquire into and collect data bearing on the welfare of the native population. This Committee, known by contradistinction with its famous predecessor as the Little Welfare (*Kleine Welvaart*) Committee is presided over by the Director of Economic Affairs, and comprises the Head of the Statistical Bureau, the State Credit System and the Land Revenue Service, with two or three unofficial members. It has rendered useful service during the present depression<sup>31</sup> by a series of comprehensive surveys of the economic situation. Quite recently, in 1931, a second Committee<sup>32</sup> of Advice on Economic Affairs has been constituted.

<sup>30</sup> *Commissie tot her nagaan en verzamelen van gegevens betrekking hebbende op de welvaart der Ind bevolking.*

<sup>31</sup> *Nee. Ind. In de Wereld Crisis, 1930*

<sup>32</sup> *Jaarverslag v. d. voor zitter v. d. Kleine Welvaarts Commissie over 1931, Jaaroverzicht, 1932.*

Thus the outcome of the series of enquiries and surveys inaugurated by the Queen's Speech in 1901 has been the constitution of a special machinery for the study of welfare problems and a special machinery for the measurement of welfare. By devising this machinery and placing it at the disposal of the Governor-General and Representative Assembly, the Dutch in Netherlands India may claim to have elaborated a satisfactory technique for studying and promoting human welfare.

## BENGAL UNDER THE VARIOUS SCHEMES OF FEDERAL FINANCE

BY

ABANI MOHAN KUSARI M.A.,  
*Dacca University.*

### The Resources of Bengal.

The injustice done to Bengal by the Meston Award has been the subject of many discussions. Since 1922-23, the year when Bengal was exempted from provincial contributions, there have been as many as six deficit budgets in Bengal (1926-27 to 1927-28 and 1930-31 to 1933-34). Attempts have been made to avert deficit budgets by heavy retrenchments and additional taxation. But they have led to no substantial improvement of the financial situation. The chief reasons seem to be the following: (1) the yield from land revenue in Bengal is very inelastic and has not increased as in other provinces; (2) and the two most fruitful sources of revenue in Bengal, e.g., the income-tax and the export duty on jute, accrue to the Central Exchequer. "Bengal shares with Bihar and Orissa the effect of a Permanent Settlement that bars the expansion of land revenue, and with Bombay the loss of revenues derived from industrial and commercial wealth; but Bengal alone suffers from both these causes."<sup>1</sup> The financial

<sup>1</sup> *Vide* para. 86, p. 88, Report on the Working of the Reformed Constitution in Bengal, 1921-27 (Pt. I).

position of Bengal *vis-à-vis* the other provinces can be easily judged from the following table<sup>2</sup> :—

Province.		Revenue per head (Rs.)	Expenditure per head (Rs.)
Bengal	..	2·1	2·3
Madras	..	3·9	3·8
Bombay	..	6·9	7·4
United Provinces	..	2·7	2·7
Punjab	..	5·0	5·4
Bihar and Orissa	..	1·5	1·5
Central Provinces	..	3·3	3·2
Assam	..	3·0	3·1
Burma	..	7·0	7·5

It is apparent from this table that, with the exception of Bihar and Orissa, Bengal is the poorest province both in regard to revenue and expenditure. We shall try to estimate what improvement on this financial position of Bengal has been proposed by the various schemes of federal finance.

#### The Layton Scheme.

The total revenues accruing to the provinces under this scheme have been estimated by the Government of India on the basis of available statistics with only one guess work, namely, the probable yield from the tax on agricultural income, which, for Bengal, has been taken to be about 9 crores of rupees. The following table shows the financial position of Bengal and the other provinces under the Layton Scheme :—

<sup>2</sup> Based on the estimated receipts and expenditure of the provinces of India in 1931-32 and the total population at the Census of 1931. *Vide para. 7, p. 4, Report of the Bengal Retrenchment Committee (1932).*

Province.	Total Revenue under the Layton Scheme <sup>3</sup> (in crores of rupees.)	Total population at Census of 1931 (in thousands).	Revenue per head under the Layton Scheme (Rs.)
Bengal ..	18.81	50,114	3.8
Madras ..	22.23	46,740	4.8
Bombay ..	18.89	21,931	8.5
United Provinces ..	17.85	48,409	3.7
Punjab ..	14.33	23,581	5.9
Bihar and Orissa ..	9.76	37,678	2.5
Central Provinces ..	7.03	15,508	4.4
Assam ..	3.82	8,622	4.2

### The Percy Scheme.

The Percy Committee have estimated the probable future position of provincial Governments on the basis of actual forecasts of provincial budgets for the years 1933-34 to 1937-38. They have suggested certain definite methods of distributing the proceeds of the income-tax to the provinces and have calculated the final budgetary position of each province after it has made a contribution, as suggested by the Committee, towards wiping out the Central deficit resulting from the loss of the income-tax. The increase of revenue accruing to each province under the Percy Scheme may be calculated thus<sup>5</sup> :—

Province.	The Provincial Forecasts Surplus (+) or deficit (-) (Rs. Lakhs.)	Total Surplus (+) or deficit (-) under the Percy Scheme, (Rs. Lakhs.)	Total increase of revenue under the Percy Scheme (Rs. Lakhs.)
Bengal ..	-2.00	Nil.	2.00
Madras ..	-20	+22	42
Bombay (excluding Sind)	-65	+9	74
United Provinces ..	+25	+53	28
Punjab ..	+30	+51	21
Bihar and Orissa ..	-70	+2	72
Central Provinces ..	-17	+5	22
Assam ..	-65	-36	29

<sup>3</sup> Vide Appendix III, Statement III, Government of India's Despatch on proposals for Constitutional Reform (1930).

<sup>4</sup> Vide para. 7, p. 4, Report of the Bengal Retrenchment Committee (1932).

<sup>5</sup> The calculation is based on Table IV-A and IV-B of the Report of the Federal Finance Committee (1932).

The revenue per head under the Percy Scheme in the various provinces can now be easily deduced.

Province.	Total Revenue under the Percy Scheme (Rs. Lakhs.)	Population at census of 1931 (in thousands).	Increase of revenue per head under the Percy Scheme (Rs.)	Revenue per head in 1931 (Rs.)	Revenue per head under the Percy Scheme (Rs.)
Bengal ..	2,00	50,114	.4	2.1	2.5
Madras ..	42	46,740	.1	3.9	4.0
Bombay (excluding Sind) ..	74	18,400 <sup>6</sup>	.4	6.9	7.3
United Provinces ..	28	48,409	.0	2.7	2.7
Punjab ..	21	23,581	.1	5.0	5.1
Bihar & Orissa ..	72	37,678	.2	1.5	1.7
Central Provinces ..	22	15,508	.1	3.3	3.4
Assam ..	29	8,622	.3	3.0	3.3

### The White Paper Scheme.

According to this scheme, not less than 25 per cent. and not more than 50 per cent. of that portion of the income-tax which the Percy Committee has proposed to distribute to the provinces will be retained by the Federal Government. To balance the Federal Budget there will be a transitory provision by which the Federation can retain for itself a block amount out of the proceeds of income-tax distributable to the provinces. As the amount to be thus retained has not been specified, we shall estimate the financial position of the provinces ten years after the introduction of a federal government into India by when the Federal Budget will balance itself without any aid from the provinces. The only other significant financial change proposed in the White Paper is the assignment of at least half the net proceeds of the export duty on jute to the producing units. The financial position of Bengal *vis-à-vis* the other Provinces under

<sup>6</sup> The population of Sind being about 3/19th of that of the whole of the Bombay Presidency in 1921, we have assumed that the same holds approximately true at the census of 1931 the latter being not available in detail.

the White Paper Scheme may, on the lines previously adopted, be roughly estimated as follows:—

Province.		Share of income-tax under the White Paper <sup>7</sup> . (Rs. Lakhs.)	Share of duty on jute <sup>8</sup> (Rs. Lakhs.)	Total increase of revenue (Rs. Lakhs.)	Population at census of 1931 (in thousands)	Increase of revenue per head, (Rs.)	Revenue per head in 1931, (Rs.)	Revenue per head under the White Paper (Rs.)
Bengal	..	243	188	431	50,114	.9	2.1	3.0
Madras	..	110	..	110	46,740	.2	3.9	4.1
Bombay (excluding Sind)	193	..	193	21,931	1.0	6.9	7.9	
United Provinces	74	..	74	48,409	.2	2.7	2.9	
Punjab	..	55	..	55	23,581	.2	5.0	5.2
Bihar & Orissa	64	14	78	37,678	.2	1.5	1.7	
Central Provinces	35	..	35	15,508	.2	3.3	3.5	
Assam	..	17	7	24	8,622	.3	3.0	3.3

7 The White Paper has left the basis of distributing the income-tax among the Provinces undecided. In the absence of any such decision, we have considered it advisable to adopt the methods suggested by the Percy Committee, namely, the method of dividing the personal super-tax on the basis of actual collections from residents, the estimated tax on the undistributed profits of companies and on the incomes of persons resident outside British India on population basis, and the remainder on the basis of personal income-tax collected within the provinces; without, of course, the tax on federal salaries. Of the total amount of income-tax distributable to the provinces according to the Percy Scheme, we have, for purposes of calculation, made over 60 per cent. to the provinces, though according to the White Paper the amount so made over may lie anywhere between 50 and 75 per cent.

8 In 1929-30 the productions of jute in Bengal, Bihar and Orissa and Assam bore to one another the approximate ratio of 26 : 2 : 1. Assuming the quality of jute produced to be the same in all these provinces, we can find out the amount of jute-duty contributed by each of them by dividing the total amount of duty on jute in the proportion 26 : 2 : 1. The average of the duty on jute from 1925-26 to 1929-30 amounts to nearly 4,21 lakhs of rupees. Dividing this amount in the aforesaid proportion we can attribute 377 lakhs to Bengal, 29 lakhs to Bihar and Orissa and 14.5 lakhs to Assam. (*Statistical Abstract for British India—1920-21 to 1929-30*). Under the White Paper Scheme we have assigned to these provinces only 50 per cent. of the amounts contributed by them in the shape of duty on jute, because though 50 per cent is the minimum amount proposed in the White Paper, it is feared that we shall take too rosy a view of the financial situation in the Centre if we expect to get more for the provinces.

### Criticism of the Schemes.

We may now, for the purpose of comparison, put together the results obtained under the various schemes.

Province.	Revenue per head in 1931 (Rs.)	Revenue per head under the Layton Scheme (Rs.)	Revenue per head under the Percy Scheme (Rs.)	Revenue per head under the White Paper Scheme (Rs.)
Bengal ..	2.1	3.8	2.5	3.0
Madras ..	3.9	4.8	4.0	4.1
Bombay ..	6.9	8.5	7.3	7.9
United Provinces ..	2.7	3.7	2.5	2.9
Punjab ..	5.0	5.9	5.1	5.2
Bihar & Orissa ..	1.5	2.5	1.7	1.7
Central Provinces ..	3.3	4.4	3.4	3.5
Assam ..	3.0	4.2	3.3	3.3

The above table clearly shows some improvement of the financial position of the provinces under every scheme. But it also shows that the existing inequality among the provinces *inter se* has not been redressed to any great extent. The resources allocated to the provinces under the Layton Scheme seem to be most tempting from the standpoint of all the provinces. But there is by this time a general agreement that the Layton Scheme, which contemplates within ten years the abandonment by the Central Government of about 12 crores of their revenue and the imposition by the provinces of 24 crores of new taxation, is "conceived in a spirit of optimism<sup>10</sup>" which is difficult to share. The depressed condition of trade and the insistence on protection in India make it extremely improbable that the customs revenue will contribute any substantial amount to the

<sup>9</sup> We have pointed out before that the position immediately after the introduction of a federal system of government will be worse than this. The figures represent the situation 10 years after the introduction of federal system of government.

<sup>10</sup> Government of India's Despatch on Proposals for Constitutional Reform (1930), para. 56, p. 51.

Central surplus of Rs. 14½ crores expected by Sir Walter Layton. The new terminal tax to be levied by the provinces which is expected to bring about Rs. 8 crores cannot but have a deleterious effect on railway traffic. The yield from tax on matches is not likely to be as high as calculated by Sir Walter Layton, not merely because the tax is regressive but also because it can be evaded to a great extent by economizing. But when all is said, the Layton Scheme must be given credit for suggesting a method of distributing a part of the income-tax amongst the provinces,—a suggestion which has been adopted by all the latter schemes—and for insisting on taxing agricultural income, a problem which all provinces must sooner or later face.

The Percy Committee have given us a detailed scheme of distributing the income-tax among the provinces. But it has been pointed out on behalf of Bengal that she has been given less under the Percy Award than she contributes to the Central Exchequer in the shape of income-tax.<sup>11</sup> In 1929-30 the gross collection of income-tax in India was about 1,706 lakhs to which Bengal contributed about 618 lakhs, i.e., nearly 36·2 per cent. of the total amount.<sup>12</sup> Under the Percy Scheme Bengal receives 405 lakhs out of a total income-tax of 1,720 lakhs, i.e., nearly 23·5 per cent. of the whole.<sup>13</sup> This does look like an injustice to Bengal; but it is necessary to point out that a part of the yield from the income-tax contributed by Bengal is derived from incomes earned outside Bengal. A great part of the tax is collected in Calcutta because of its importance as a business centre. Again, even without this modifying factor, it is necessary to remember that a much too rigid insistence on provincial claims is a bane to the spirit of federalism. The truth appears to be that the injustice done to Bengal under the Percy Scheme is not due to an unwise distribution of the income-tax but is due to the

<sup>11</sup> Sir N. N. Sircar's Note on Bengal Finances, submitted to the Indian Round Table Conference (3rd session)

<sup>12</sup> *Vide* Statistical Abstract for British India (1920-21 to 1929-30).

<sup>13</sup> Report of the Federal Finance Committee (1932), para. 74, pp. 19-20.

refusal of the Percy Committee to consider the justice or otherwise of Bengal's claim to the export duty on Jute.<sup>14</sup> We have seen that revenue per head in Bengal under the Percy Scheme is nearly Rs. 2.5 which is equal to that of the United Provinces under the same scheme and Rs. .8 more than that of Bihar and Orissa—financially the most ill-fated province of India. But barring these two provinces, the revenue per head in Bengal is much less than that of the other chief provinces under the Percy Scheme, e.g., Madras, Bombay, the Punjab, Central Provinces and Assam.

The White Paper has tried to redress partially this injustice done to Bengal by assigning to her at least 50 per cent. of the export duty on jute contributed by her; and we have seen that under this scheme the revenue per head in Bengal increases to Rs. 3 which puts her almost on a par with the United Provinces, Central Provinces and Assam, though yet much below Madras, Bombay and the Punjab. If the entire proceeds of the duty on jute collected in Bengal are made over to Bengal, the revenue per head becomes Rs. 3.3. Though there are reasons to fear that the minimum of 50 per cent. promised in the White Paper will not be exceeded for a long time to come, Bengal's claim to the entire duty on jute rests on very strong grounds. As the duty on rice will accrue to Burma when she is separated from India, Bengal is likely to contribute at least 90 per cent. of the export duties collected in India.<sup>15</sup> This money will be utilized for the benefit of the whole of India, including the Native States. But as a matter of fact a substantial part of this amount is paid by the tax-payers of Bengal and not by the foreign buyers of jute. It is true that in the case of an absolute monopoly with stable demand the export duty is generally paid by foreigners. But, as both the Fiscal Commission (1921-22) and the Taxation Inquiry Committee

<sup>14</sup> *Ibid.*, para. 83, p. 23.

<sup>15</sup> In 1929-30, the export duties on hides and skins and jute amounted to Rs. 499.2 lakhs to which the duty on jute (which is collected in very small quantities in Bihar and Orissa and Assam) contributed Rs. 463.67 lakhs or over 92 per cent. (*Vide Statistical Abstract for British India, 1920-21 to 1929-30*).

(1924-25) have stated, such a monopoly is of rare occurrence. Moreover in the post-War days jute has not been a monopoly in the sense that its producers have been able to control its price, because its total demand has often been less than the amount manufactured or produced in Bengal. It is but justice that jute, the production of which is to a great extent responsible for malaria in Bengal, should bring something into the coffers of the Government to combat this evil.

### The Needs of Bengal.

We have seen that even when we assign to Bengal the entire share of the duty on jute, her revenue per head is Rs. 3.3, which is still below that of Madras, Bombay and the Punjab. Under the existing system, with a revenue per head of Rs. 2.1, the position of Bengal *vis-à-vis* the other provinces in regard to expenditure on Education, Medical and Public Health and Civil Works may be judged from the following table<sup>16</sup> :—

(Expenditure per head of population according to 1929-30  
Budget estimates in rupees.)

	Madras.	Bombay.	Bengal.	United Provinces.	Punjab.	Bihar and Orissa.	Central Provinces.	Assam.
Education	..	.608	1.057	.285	.421	.806	.262	.410
Medical & Public Health	..	.333	.472	.210	.145	.391	.153	.158
Civil Works	..	.504	.674	.180	.108	.802	.156	.626
<b>TOTAL</b>	..	1.445	2.203	.675	.674	1.999	.571	1.194
								.802

More light is thrown on the deplorable condition of Bengal's "developmental activities" if we consider the increase of expenditure between 1922-23 and 1929-30 on Transferred Subjects of the three principal agricultural provinces and the two chief industrial provinces of India :

<sup>16</sup> *Vide* Simon Commission Report, Vol. II, para. 261, p. 293.

(Expenditure in lakhs of rupees.<sup>17)</sup>

	1922-23	1929-30 (Budget)	Increase	Percentage increase
Bengal	.. 353.9	404.0	50.1	14
Bombay	.. 453.5	567.6	114.1	25
Madras	.. 411.3	763.8	352.5	86
Punjab	.. 299.0	542.7	243.7	82
United Provinces	.. 298.0	388.2	90.2	30

It appears from the above tables that Bengal needs more revenues than even what is assigned to her under the White Paper. From only one direction can a substantial increase of resources be expected, namely, land revenue. The inelasticity of the land revenue in Bengal and Bihar and Orissa may be seen from the following statement<sup>18</sup> :—

(The figures are in thousands of rupees)

Province	Land Revenue in		Differ
	1912-13	1925-26	
<i>Permanently settled Provinces.</i>			
Bengal ..	2,70,42	2,78,77	8,35
Bihar & Orissa ..	1,49,21	1,55,71	6,50
<i>Temporarily settled Provinces.</i>			
United Provinces ..	6,64,13	7,04,99	40,86
Madras ..	6,83,62	7,48,18	64,56
Punjab ..	3,15,79	4,57,58	1,41,79
Bombay ..	3,92,26	5,03,68	1,11,42
Central Provinces ..	1,80,04	2,02,78	22,74
Burma ..	2,86,16	4,08,29	1,22,13
Assam ..	71,50	92,54	21,04

<sup>17</sup> Vide Simon Commission Report, Vol. II, para. 261, p. 284.<sup>18</sup> Vide Report on the Working of the Reformed Constitution in Bengal, 1921-27, (pt. I), para. 87, p. 83.

The Government of India's Despatch on proposals for Constitutional Reform made a guess-work with regard to the probable yield of income-tax on agricultural income. The expected yield in Bengal is about Rs. 9 crores.<sup>19</sup> It will lead to an increase of revenue by about Rs. 2 per head. It is apparent that the zemindars of Bengal must choose between the taxation of agricultural income and temporary settlement.

Bengal is the most densely populated province in India; and it has been argued that low revenue or expenditure per head gives us no clue to the real needs of a province, because "it costs more to run a province with a scattered population than one which is densely populated."<sup>20</sup> But even Sir Walter Layton who is responsible for the above remark had to admit that the disparity between the expenditure per head in various provinces is so great that it is impossible to believe that it can be entirely accounted for by differences in the needs of the provinces. As regards expenditure per head on education, if the low figure for Bengal which we have quoted above be not convincing regarding her needs in this respect, it may be pointed out that recently a most thorough investigation has led to the conclusion that, especially in Bengal and Bihar and Orissa, the pay of the teacher is "woefully low."<sup>21</sup> The Bengal Quinquennial Review (page 43) states that "in the Chittagong division, the average (monthly) salary of a high school teacher is Rs. 51.7, of a middle school teacher Rs. 18.2. In Rajshahi 70 per cent. of the high school teachers receive between Rs. 20 and Rs. 70 and the actual average is Rs. 44.5."<sup>22</sup> Not only is the average cost per pupil in Bengal in both primary and secondary schools very low in comparison with most of the other

<sup>19</sup> *Vide* Appendix III, Statement III.

<sup>20</sup> Simon Commission Report, para. 260, 282. See also the article on "The Structure of Bengal Finances" by Dr. Ramachandra Rau in the Mysore Journal of Economics, Nov. 1933.

<sup>21</sup> Hartog Committee's Report, para. 47, pp. 117-18.

<sup>22</sup> Quoted in Hartog Committee's Report, p. 118n.

provinces; but the average cost also per school shows a similar situation.<sup>23</sup> From these facts it can be inferred that the low scale of Bengal's revenue and expenditure is a fair index to her pressing needs. It should be borne in mind that the cost of administration depends mainly on the number of human beings and only secondarily on the number of acres administered.

<sup>23</sup> *Ibid.*, paras. 18 and 21, pp. 264-65, (Estimates for 1927)

# A RESTATEMENT OF THE DEFINITIONS OF CONSUMPTION AND PRODUCTION IN THE LIGHT OF ECONOMIC LAWS OF INCREAS- ING AND DIMINISHING UTILITIES

BY

J. K. MEHTA,

*University, Allahabad.*

Want as ordinarily understood means a desire.<sup>1</sup> But in economics the term really has a wider denotation, although few economists seem to have recognised this fact. Even when we have no express desire for a commodity its possession, if we somehow come to acquire it, may give us satisfaction. But as satisfaction could not be obtained unless there was a want, we have to recognise wants of which we are not conscious. A want that has entered consciousness is accompanied with a painful feeling which lasts as long as the want is not satisfied. When the removal of the want begins the pain is turned into satisfaction which continues till the want is not fully removed.

<sup>1</sup> The connotation of the term want has not been carefully analysed by economists. A vast majority of them pass on to the discussion of characteristics of wants without defining this term. But it is evident from their works that they use the term want more or less in the sense of a desire. Only Chapman, perhaps of all writers, refers to want as "an ambiguous term." He says that want might refer to a craving or longing or to a decision to make sacrifices, if need be, to possess some particular thing or perform some particular action. But even he does not fully analyse the meaning of want as I have attempted to do in this article.

A want of which we are not conscious is not accompanied with pain and yet its removal, brought about by chance or otherwise, is attended with satisfaction. A want must be regarded as the presence of a factor relating to our physical or mental constitution which is in a sense opposed to such other factor as would remove that want. The state of a man's physical and mental constitution at a particular time may be regarded as composed of a number of factors (say, roughly expressed as the presence of warmth, darkness, absence of certain food elements in the body, presence of moroseness, etc.) Some of these are pleasure-affording while others are painful or disagreeable, inasmuch as they affect our state of consciousness. The former consist of those factors which may be regarded as objects of want, while the latter comprise factors which are opposed to such other factors as would remove pain or afford satisfaction. Thus in the constitution of a person at a given moment of time there are some factors (not all) the opposite of which can be called the objects of want. All such factors may be called want-factors inasmuch as the presentation of opposed factors would either remove pain or afford pleasure. The other factors may, in the absence of a better term, be designated anti-want-factors.

The effects of want-and anti-want-factors may either enter consciousness or not. When the anti-want-factors enter consciousness (and to the extent to which they do) they afford a pleasant feeling and the want-factors produce a painful feeling. The state of consciousness at a particular moment (agreeable or otherwise) is the result of the combined effects of all want-and anti-want-factors, so far as they have entered consciousness. The satisfaction obtained by the removal of a want, that is, by the presentation of a factor opposed to a want-factor is measured by contrasting the state of consciousness before the removal of the want with that after its removal. The amount of satisfaction, thus, depends on these two states of consciousness. The one being given, the satisfaction is greater or less according to the degree of the other. For example, the state of consciousness after the removal of the

want being given, the satisfaction is greater the more painful or the less agreeable is the state of consciousness before its removal. The more fully is a man conscious of the presence of a want-factor, other things being the same, the less pleasant or agreeable is his state of consciousness and, therefore, the presentation of an opposed factor, that is, the removal of the want-factor would, other things again being the same, afford, by contrast, greater satisfaction. But the more fully is a man conscious of the presence of a want-factor less, generally speaking, is he conscious of the presence of anti-want-factors, and the less pleasant is the state of his consciousness and, consequently, the greater is, by contrast, the satisfaction obtained by the removal of the want. Thus, the more fully you are conscious of your disease, the greater is the satisfaction obtained by the use of an efficacious medicine. The more you are absorbed in work and the less mindful of the heat of the day you are, the less is the satisfaction that you obtain from the fan running overhead.

We may therefore say, in summing up, that the satisfaction due to the removal of want depends on the extent to which the man is conscious of the want- and anti-want-factors present before and after the removal.

Wants thus understood are of two kinds. In the first place we have wants which when removed give us direct satisfaction, such as we get while eating a cake when we are hungry. In the second place, we have wants which when removed give us derived satisfaction such as we get while making a cake. The act of satisfying the former kind of wants is known as consumption, while the act of satisfying the latter kind is called production.<sup>2</sup> Thus

<sup>2</sup> That consumption involves the satisfaction of direct wants seems to have been recognised by some writers. Thus Ely says, "Consumption in economics is commonly taken to refer to the use of goods or services in satisfying wants directly." Chapman describes want in more or less the same manner. But the full import of such an expression does not seem to have been grasped by even these writers. For they do not contrast consumption and production in the way in which I have done in this article.

consumption and production both satisfy wants, though of different kinds,<sup>3</sup> and so the difference between consumption and production is very slight and often difficult to make. It will be obvious on careful reflection that consumption and production are hardly separable in actual life because they always go together. Consumption, as defined above, cannot carry with it any painful efforts such as those which are necessary for production. On the other hand, production always involves some pain although it is always more than counter-balanced by the derived satisfaction that accompanies it;<sup>4</sup> if it were not so an act of production would never be undertaken. The pain involved in production is due to the effort which is necessary to get derived satisfaction and since pain must be due to a want of which we are conscious, it follows that the pain involved in production is due to the (conscious) wants which arise during the process of production. For instance, when I am making a cake my want that leads me to this act is that of "making a cake" and so the removal of this want gives me derived satisfaction and is therefore an act of production. But this act of production involves some pain, for I have to work both physically and mentally and this effort is painful inasmuch as it gives rise to a new want of rest and ease. So we come to the conclusion that while production involves pain consumption does not. In those cases in which consumption appears to involve pain, it

To say that production is negative consumption or vice versa is true only in a peculiar sense of the word negative, and does not bring out the essential difference between the two processes. Ely and Marshall are among those who have contrasted production and consumption by saying that consumption is negative production.

<sup>3</sup> That production and consumption both satisfy wants has been expressly stated by some writers, but their realisation of this fact has not provoked any further clarification of ideas. Ely has been constrained to speak of "productive consumption," as perhaps a few others also.

<sup>4</sup> It is generally true that production involves pain, but when we are not conscious of the wants created by the process of production we do not experience any pain.

must be understood that the act is not really one of consumption but of production. For example, if eating a cake involves some pain experienced in taking the hand to the mouth, this process of taking the cake to the mouth is an act of production giving us derived satisfaction. It will now be realised that for every direct or final satisfaction (afforded by consumption) there is a long series of derived satisfactions (afforded by production). Inasmuch as it is difficult to say that such and such a satisfaction is final and not in any sense derived, it is difficult also to point to an act of consumption as distinct from that of production. As a matter of fact all acts could probably be called acts of production, for not only does the taking of the cake to the mouth give derived satisfaction but masticating it, swallowing it and letting it pass into the stomach would all give, strictly speaking, derived satisfaction.<sup>5</sup> It is now evident that in the strict economic sense the act of consumption really dwindles down to the mere "event" of getting final satisfaction and the use of the word "act" in connection with "consumption" is hardly justified.

Hence, we may now say that all activities are acts of production giving derived satisfaction and involving painful efforts due to the creation of new wants, and all enjoyments of final satisfactions constitute consumption.

Let us now see how these conceptions of consumption and production fit in with the statements of increasing and diminishing utilities, namely, that consumption decreases (marginal) utility and production increases it. It may be wondered how production can create or increase utility when the act of production is said to yield satisfaction, derived though it may be.<sup>6</sup> When I am making

<sup>5</sup> This point also does not seem to have been properly recognised. Most of our acts which are regarded as acts of consumption are really acts of production. As a matter of fact consumption is hardly an act in its usual sense, and, as stated in this article, should properly be regarded as an event.

<sup>6</sup> When it is said that production creates or increases utility it is not generally clearly realised that the act of production yields (derived) satisfaction. Too much

a cake I get derived satisfaction and it would appear that the reaction of such an act on utility must be of the same kind as that of consumption. But a little reflection on the point will make it clear that when I am making a cake, although I am deriving satisfaction, that satisfaction, derived as it is, naturally increases with the approach of the consummation of the act of making the cake.<sup>7</sup> My more ultimate want being that of the completed cake, and the derived satisfaction being only derived from the idea or assuring thoughts of that cake, the satisfaction obtained during the process of production must increase as the ultimate want is more and more nearly approached.

Consumption, on the other hand, being the enjoyment of direct or final satisfaction, and involving no act of approach to the ultimate object of Want must naturally yield decreasing satisfaction.

These definitions of consumption and production now enable us to explain away the limitations of the law of diminishing utility which are found in text books. A true law should have no exception, and therefore if consumption and production are rightly understood one should be able to show that the law of diminishing utility has no exception.

It is said that coal consumed ounce by ounce gives increasing utility upto a certain limit and therefore such a case must be regarded as an exception to the law of diminishing utility. And in recognition of such exceptions the law is sometimes slightly modi-

importance is, however, given to the painful efforts involved in production. This feeling of pain is, as we have seen, due to the new wants, which are created by the act of production. If these new wants do not enter our consciousness we do not experience any pain. Thus while drawing the cost of production curve of labour the positively inclined curve showing increasing painfulness or disagreeableness of work is made to start, not from the origin, but a point right of it.

<sup>7</sup> This point is of the greatest importance for the proper study of consumption and production. It is the failure to realise this fact that has led to the necessity of admitting exceptions to the law of diminishing utility. This point is made clear in what follows.

fied by the addition of the words " provided the units of consumption are sufficiently big "; and we are satisfied without knowing what constitutes a big unit in each case and why such a limitation of the law should be necessary.

In the light of what has been said above, however, it will be clearly seen that the process of using the coal as long as the utility is increasing is not really consumption but an act of production. For our final want being that of cooking food, let us say, it does not begin to be satisfied till we have secured a quantity of coal that can be utilised for that purpose.<sup>8</sup> The act of acquiring coal by ounces, thus, gives us derived satisfaction, although it satisfies an immediate want. Hence as we approach the position where coal can begin to satisfy our final want, the satisfaction must increase. Being derived satisfaction the act of using the coal or of acquiring it must, therefore, be regarded as an act of production.

The example of the collector of rare articles can be placed in the same category and explained in the same manner.

That the law of diminishing utility is based on the assumption that the nature of the consumer's want remains unchanged seems to have been generally well understood. We would say that we are recognising relativity of utility; our concept of utility is always related to a particular period (moment!) of time, or more precisely, to a particular commodity of a definite kind and a particular state of consumer's wants.

Taussing points out that " the second or third reading of noble verse, or hearing of beautiful music, often gives greater pleasure than the first." Referring to another example of increasing utility

<sup>8</sup> In the footnote on page 94 of his *Principles* Marshall makes this point clear by saying " that a small quantity of a commodity may be insufficient to meet a certain special want; and then there will be a more than proportionate increase of pleasure." But he has failed to realise that the use of the commodity giving more than proportionate increase of pleasure cannot be called consumption and thus such a case does not contradict the law. Omission of this point in the text is apparently excused by the observation that " the fact is of but little practical importance."

he says, " in such cases, however, the tastes of the purchasers may be said to have changed in the interval." The same remark should apply to the cases of noble verse and beautiful music. It is in recognition of this very point that Marshall says that " we do not suppose time to be allowed for any alteration in the character or tastes of the man himself " and Ely remarks that " the law relates only to the consumer as he is at any given time."

---

## COTTON MARKETING

BY

P. SATYANANDAM, M.A., B.ED.,  
*Andhra Christian College, Gantur.*

From Berlin, we hear complaints against the marketing of Indian Cotton. The International Cotton Committee which was in session at Berlin, resolved to bring to the notice of the American exporter of cotton complaints concerning 'false packed' bales of American Cotton which was causing difficulties to the spinners of the continent and the United Kingdom.

The Committee further refers to the present system of marking bales of Indian cotton as inadequate and unsatisfactory. The spinner has no chance of tracing the name of the ginner from whom the cotton has come inspite of the Ginning and Pressing Act which requires each press to put a mark on its bales. These complaints from the overseas spinners have an adverse effect on the cotton trade of the country and unless the cotton grower and exporter rectifies and tries to satisfy the desires of the consumer, the overseas spinner and the Indian cotton millowner, the Indian trade will suffer in the world competition.

I want to set forth in this article the complaints made against the Indian marketing of cotton. Cotton grown in India is exported to the spinners in the United Kingdom and on the Continent. If this trade is to be expanded, attention in India should be concentrated on the cultivation of such varieties of cotton as can be substituted in European mills for cotton from other countries, specially from America. The style of cotton required is white or creamy in colour, good grade (i.e., free from leaf, seed neps, and stains) staple 15/16 inch to 1 $\frac{1}{2}$  inch with diameter of fibre similar to American, and packed to a density of not higher than a standard of 400 lb. bales.

Quality improvement of the cotton is a prime factor. One of the chief reasons for the creation of Indian Cotton Committee was to improve the quality of cotton grown in India. Under this heading may be suggested, 1. Improvement in picking and 2. Improvement in staple. The main features that militate against the ultimate success of Indian cotton are: excessive leaf, bad ginning, mixing, heavy density of bales, and want of proper grading and marking. The cultivator, the middleman, the merchant, the ginner and the exporter are responsible for bad reputation of certain grades of cotton in the overseas markets. The chief complaint in picking cotton are leaf and dust, chiefly leaf. This is a question of variety, some varieties are very much more leafy than others. The Agricultural Department is trying its best to remedy this source of trouble.

Three types are distinguished in staples: short staple, medium staple, and long staple. The demand for short staple came first from Great Britain and then from the Continent. The largest exports of Indian cotton to Japan is composed of what is called medium staple, and Japan is one of the largest importers of Indian cotton. At present a good deal of short staple cotton is found in Central India. "Short staple" as a term would be more applicable to the Bengal and Sind types. The Central Provinces and Berar staple is called medium staple which is clean and white. Some years ago the Central Provinces and Berar had a medium staple, but now most of it is a short staple. The staple in Berar and the Central Provinces first deteriorated when big demand for yarn in China sprang up. The cultivator was also largely influenced by the rain factor, in that he is far less open to trouble from shortage of rain if he grows a short staple. There has been a large increase in the amount of short staple cotton grown in this area but the world's market may not continue to absorb such short staple cotton for it was the rapid growth of the American crop which put the Indian crop in the back ground.

The Indian Central Cotton Committee has taken steps to ascertain the average overseas demand for cotton of different staples, and

would appear that there is a fairly consistant market for certain proportion of short staple but the overproduction of short staple must react on the price paid for the Indian crop as a whole. The increased production by the Indian mills is more likely to be successful if yarns of higher counts are spun. It means that the Indian mills are likely to require more staple cotton. It would appear, therefore, not only that it is desirable to improve the growth of the existing crop, but also that any increase in the growth of the crop would best be confined as far as possible to staple cotton.

Too much attention cannot be paid to the desirability of keeping the larger staples from the shorter. Cotton which shows a fairly even 1-inch staple is of greater value to the spinner than cotton which varies from  $\frac{5}{8}$  to  $1\frac{1}{8}$  inch. The mixing in of short stapled cotton causes excessive waste to the spinner who at once condemns the cotton. If staples of different length could be kept separate it would tend to improve the value of each staple and ultimately the farmer would reap a greater reward, where his care succeeded in promoting a better staple. There is a demand for the Indian short staple cotton outside India but that is limited. The proportion of Indian cotton relatively to American that Japan is taking has fallen in recent years. The Japanese demand is regulated very largely by American prices. Japan has been going in for higher counts of late years and that reacts against Indian cotton. There is deterioration in certain grades of cotton in India. For instance, the Punjab 4F. has deteriorated during the last few years. The deterioration is in the staple but not in the strength or colour of the cotton. It is the staple of the cotton and it must be due to the fact that the strain is wearing itself out.

Lancashire has no fundamental objection to Indian long staple cotton. It is entirely a question of price with the Lancashire mills. They buy American or Indian, whichever they can buy cheaper. The consumption in the Bombay mills has increased definitely in the higher counts, so that from the point of view of the Bombay mills there would be a considerable demand for a longer staple cotton in India, apart from export.

Our aim ought to be, as a policy, at the larger and medium staple. The produce of India can be sold in increasing quantities if we compete with American cotton, which is a staple cotton.

Bad ginning is another complaint against Indian exports of cotton to overseas markets. Ginning is done in two different ways. One is saw-ginning and the other roller-ginning. The saw-ginning cotton is clean but there is a tendency to cut the staple. The experiments carried out in various parts of India are distinctly against saw-ginning. The difficulty is that when the lint adheres firmly to the seed one may cut it and in some varieties we do get a very firmly adhering lint, which causes much damage. But the experience of Mr. James Littlewood of the Oldham Master Cotton Spinners' Association, England, is different. He thinks the disadvantages of the use of saw gin are rather by report than by actual experience. Messrs. Ralli Brothers use saw gin. Mr. Littlewood has used saw-ginned cotton for a number of years. He found it a very great advantage for opening and mixing. He is inclined to think that cotton will be successfully saw-ginned. He says he had no difficulty in the heckling or cutting of the fibre, at least in the two kinds, the Punjab American and the Cambodia, which he had used. Messrs. Ralli Brothers have started saw ginning now in Sind; they have put up a factory in Sind. Mr. Littlewood prefers saw-ginning to roller-ginning for it takes away more fluff.

Now and then saw-ginned cotton is mixed with roller-ginned cotton. But experience shows that one does not get as good a result by so doing as one gets with pure saw-ginned cotton; you do not get as level a yarn, nor do you get as good a strength test. The pulled saw-ginned cotton is more fluffy than the roller-ginned cotton; it makes a fuller thread.

So increased care is necessary in the process of ginning. Inefficiency in ginning is responsible for quantities of crushed seed, excessive broken leaf and seed, besides quantities of whole seeds left in the cotton. The roller gin is predominantly in use in India, but experience of the overseas spinners is that some types

of cotton are much improved by being saw ginned. American is however principally roller-ginned; but it comes in a different form; it is lighter density cotton and opens better. The Indian roller-ginned cotton does not open so well.

If India desired to participate largely in the Lancashire market and in other overseas markets it would be necessary to alter its methods of ginning and to adopt sawgins. The overseas spinner complains also about mixing. Fundamentally all mixing of different growths is wrong and must react on cotton growing industry in India. Mixed seed results in irregularity in the characteristics of the bulk cotton, harsh and strong, soft and weak fibres, mixing together in variegated colour. Deterioration of seed is also caused by mixing seed. Well known standard types of seed which formerly produced say 1 inch staple has gradually deteriorated in the last few years till only bare  $\frac{1}{2}$  inch is now the result. As an instance, Broach cotton has for several years been grown shorter and coarser than formerly and not as easy to spin.

Mixing is resorted to by growers, middlemen, ginners, and exporters. It is done by growers and middlemen on a large scale in places where poor staple has been imported into areas where good staple is grown, and this problem certainly has the effect of very quickly depreciating the value of the cotton grown in the area where the mixing takes place, owing to the fact that the buyers never know exactly what they are getting. Much has been achieved by the Cotton Transporting Act in this direction. Mixing by exporters for specific export types has not the same immediate effect as it does cause exporters to pay lower prices for all classes of cotton grown within that area, but it probably eventually reacts on prices, as a false impression may be created in overseas markets as to the cotton that is grown in India. In both cases of course, there is the risk of mixed seed percolating into the field for the next sowing and thus deteriorating the crop. Several suggestions are made to stop this practice. One suggestion was that the exporters could be persuaded to discard private types and to sell on the trade descriptions recognised by the

Agricultural Department. Others think that this suggestion is impracticable. It is true that private types safeguard the interests of the exporter but it would be equivalent to a narrowing of the contracts, and it is generally admitted that the broader the contracts the more stable prices are likely to be. Another suggestion is to discourage station names such as was in vogue some times back and to promote the sale of cotton on its merits. The suggestion would be impossible to enforce for several reasons. It is probable that good shippers would be penalised to the advantage of bad shippers. And again, exporters cannot be expected to sell only on pure types as long as large quantity of mixed cotton is sent by middlemen and ginners to the terminal markets for sale, which may be sold for export in direct competition with them. A third suggestion is that of licensing of gins and presses and declaring of different growths in ginneries to be illegal as it is done in Rajpipla State. The rules are very strict in Rajpipla State against mixing in the ginneries; it is punished by very heavy fines, even imprisonment.

The Rajpipla cotton was originally of rather low quality. They have tackled the question at the cotton gin. The measure of success is enormous; the Rajpipla crop has improved out of all recognition; it fetches very high prices in the Bombay market. The Ginning and Pressing Factory Act really only copes with false packing and cotton tendered under one of the Bombay hedge contracts. It does not, and cannot, touch cotton deliberately mixed for export purposes.

If you go to a gin, say, in the Central Provinces, you find four or five quite different types of cotton. It would be from the merchant's point of view a very great advantage to have the types ginned separately; but it is very difficult to make arrangements in a crowded ginnery, unless it were licensed.

It is doubtful whether mixing was begun by exporters; it was probably begun by middlemen who served the terminal markets and naturally exporters followed suit, finding there was a market for mixed cottons and that they had to compete with people who bought their cotton in the terminal markets and shipped from

there, and so the practice has grown. It is not justifying the practice of mixing but just to say that the exporters will do it, as everybody else does as long as it is permitted. It is stated that the Liverpool purchaser of American cotton does not get a mixture for the growths in America are far more akin. The complaint is that the Liverpool purchaser knows what he is getting when he buys American cotton, while he does not know what he is getting when he buys Indian cotton. This does ultimately react against Indian cotton.

Another complaint against the Indian cotton exported overseas is the high density of the bales and damping. The standard Indian cotton bales is one of 400 lbs. condensed to about 10 cubit feet. This is much higher than the density of the American bale which, as a rule, does not exceed 30 lbs. per cubic foot. The English spinner who normally uses American cotton finds difficulty in opening the harder pressed Indian bales without specially adapted machinery, particularly if he receives the 500 lbs. bales. It really requires very heavy machinery to open the cotton sufficiently well to spin. But we hear contrary reports quite recently from England. On September 29th, 1934, the Textile Works Managers Committee met at Manchester. In the committee Mr. Robert Belshaw of Middleton expressed that Lancashire management and machinery were quite capable of getting the best out of the cotton and making a better yarn than their competitors. Mr. Belshaw said, "it was a lot of nonsense to suggest that special machinery was required." A new Lancashire invention known as a fibre reclaimer makes it possible for spinner to secure the bulk of "wasted" fibre, which is then spun along with the remainder of the bale and sold as yarn. The fibre reclaimer will save the industry many thousands of pounds a year, and also help the movement for the use of more Indian cotton. The Indian cotton would spin but it would spoil the American cotton for there are very few spinners in Lancashire using Indian cotton alone, it is used along with the American mixed at the hopper and of course, the hopper takes the lighter density cotton first and leaves

the heavier density cotton behind; the result is that you do not get a perfect mixing. Specially the bales of very high density, say of 500 lbs. bale, has lot of obvious damping of the cotton, with the result that the cotton clogs right through to the spinning machine and you do not get a perfect yarn, you get it coming through with thick piece in the yarn and making a thick piece in the cloth. If 400 lb. bale is as maximum, the density approximates more to the American bale and mixing can be safely made.

Americans have different press or they press to different density. They have different kinds of presses in which the air is expelled more than in the Nasmyth Wilson press in India; it is the air which causes the pressure on the Indian cotton, rather than material itself; the more air you exclude, the less pressure there will be. This machinery is exhibited in the Paris Exhibition.

The International Cotton Committee of Berlin specially points out the defects in the marking of the bales. The Cotton Transporting Act requires each ginnery to mark its own bales with its own stamp. That is, the Cotton Ginning and Pressing Act requires each press to put a mark on its bales. The mark enables one to trace the bale back to the particular press. Inspite of legislation in this country we hear of complaints from the overseas spinners about inadequate and unsatisfactory marking of bales. It is suggested that it would be to the advantage both of the market in this country and the industry as a whole in India if improved varieties, as such, were recognisable by merchants in this country. That would involve their being sold under some special mark or designation. This might not work well because it is difficult to enforce their sale on the continent on the description which we put on them in India. It does not matter much to the buyer on the continent in England what a cotton is called as long he knows exactly what he is getting. If an improved variety is produced in sufficient bulk and if it is baled in a pure state and in good condition, it very soon creates for itself a demand in the market. There is a distinct demand in the various markets for

the different types which are sent forward by the export merchants, and there is a demand for these types because they are pure.

Again, several difficulties can be overcome if cotton is properly graded. If cotton is placed on the market after it is properly graded it will help to establish some sort of Standard Deferred Delivery Contract. Establishment of Standard Deferred Delivery Contract is necessary in view of the fact that the spinners in England using various kinds of cotton require a continuous supply of each kind during the whole year, but the season for the principal kinds of Indian cotton is short. This necessitates the spinner buying during the season his estimated requirements for the year. This needs extended financial resources. Grading would therefore help the establishment of Standard Deferred Delivery Contracts. It would be necessary to establish grades of cotton somewhat similar to the Universal Standards for American cotton. There are certain specified grades for the American cotton, commencing at about "mid-fair," coming down to "fully good middling," "strict middling," "middling" "low middling," and so on. In India we have not got a system exactly like that but certain grades have obtained reputation, for instance, Dharwar, Broach and Cambodha. But the quarrel of the Lancashire spinner is not with grades but with the fact that when they have purchased say, Good Fair Tinnevelly, a certain known type, on arrival it is found vastly different, and they are put to the trouble of arbitration and claiming. The yarn suffers in consequence. It is pointed out by a Lancashire spinner that if he wants to buy 100 bales of "strict middling" from an American seller he will sell it against his type, deliver to the buyer what he has bought. But his method of buying from the sellers of Indian cotton is very different. He may buy a thousand bales of, say, "strict middling," and then he makes his selection from that; he may have fifty per cent of "strict middling" in his thousand bales; he may have twenty-five per cent of "fully good middling," and twenty-five per cent of something below; so that he gets a premium on anything that is above his purchase, and of course, he gets his discount on the other.

The story of complaints is a question of improving the ethics of the trade.

In conclusion, if these defects in the marketing of cotton trade leads to a falling off in the demand for Indian produce overseas, it is a serious matter. It will result in a serious fall in internal prices, by that the producers of cotton would be worse off and their purchasing power and standard of living would go down.

## ANNUAL MEETING OF THE INDIAN ECONOMIC ASSOCIATION

The Annual General Meeting of the Indian Economic Association was held in the Patna University buildings on the 29th December, 1934 at 9 A.M. with Prof. C. N. Vakil, President in the chair.

The following Office-bearers were unanimously elected for the ensuing year:—

*President*:—Mr. Manohar Lal, M.A. (Cantab.), Bar-at-Law,  
M.L.C., Lahore.

*Hon. Secretary and Treasurer*:—Dr. L. C. Jain, University, Lahore.

*Hon. Local Secretary*:—Head of the Economics and Political Science  
Department, Dacca University.

*Members of the Executive Committee*:—

Prof. C. N. Vakil (Bombay University), Prof. V. G. Kale (Poona), Prof. C. D. Thompson (Allahabad University), Prof. R. K. Mukerjee (Lucknow University), Dr. P. Basu (Agra University), Prof. P. J. Thomas (Madras University), Dr. Gyan Chand (Patna University), Dr. B. N. Kaul (Aligarh University), Prof. H. Rahman (Osmania University), Dr. J. C. Sinha (Calcutta University), Dr. B. V. Narayanswami Naidu (Annamalai), and Dr. H. L. Pasricha (Delhi University).

*Representation of the Association on the Editorial Board of the Journal*:—

1. Prof. V. G. Kale
2. Prof. C. N. Vakil
3. Prof. Radhakamal Mukerjee
4. Prof. P. J. Thomas

The invitation of the University of Dacca for holding the Nineteenth Economic Conference under their auspices was accepted with thanks. It was agreed that the Conference should begin on a day between the 31st December, 1935, and the 2nd January, 1936, the exact dates to be settled by the Hon. Local Secretary and to be announced later.

The following subjects were selected for discussion at the next Conference:—

- (a) Wages in relation to Costs.
- (b) Land Tenures—Historical and Modern.
- (c) Structure of Indian Industries.
- (d) Economic and Financial Aspects of the new Constitution.
- (e) A current topic to be decided by the Executive Committee.

It was resolved that a committee consisting of Prof. C. N. Vakil, Dr. Gyan Chand, Dr. H. Sinha, Dr. Beni Prasad, Prof. G. D. Sondhi, Sirdar Gurumukh N. Singh, and Dr. Radhakamal Mukerjee (Secretary), be appointed to explore ways and means of organising a Social Science Congress on the lines of the Indian Science Congress with separate sections on Economics, Sociology, Political History, Statistics, etc., and to submit its report before the end of December, 1935.

In connection with Prof. Vakil's suggestions regarding the expansion of the activities of the Association by the formation of local study centres it was resolved that the Executive Committee be authorised to take necessary steps in the matter and to report on the same to the general meeting next year.

It was resolved that a committee consisting of the following gentlemen with power to co-opt be formed to convene a preliminary conference with a view to bringing into existence a separate organisation (Population Research Institute) for the scientific investigation of population problems:—

Messrs. Manohar Lal, C. N. Vakil, K. T. Shah, Gyan Chand, B. N. Kaul, H. L. Dey, and Radhakamal Mukerjee (Convener).

The following gentlemen were admitted as members of the Association:—

1. Sir J. C. Coyajee, Prof. of Economics, Andhra University.
2. Mr. Sachchidanand Sinha, Bar-at-Law, Patna.
3. The Hon'ble Mr. Justice Bakshi Tek Chand, Lahore.
4. V. N. Mehta, Esq., I.C.S., Revenue Minister, Kashmir State.
5. N. M. Surati, Esq., I.C.S., Revenue Commissioner, Bhavanagar State.
6. M. Vaidyanathan, Esq., M.A., Statistician, Imperial Council of Agricultural Research, New Delhi.
7. Mr. Krishna Datta, B.A., Vice-Principal of Hailey College of Commerce, Lahore.
8. Mr. Mulk Raj Kohli, M.A., Secretary, Punjab National Bank, Lahore.
9. A. S. Vaidyanathan, Esq., M.A., Coimbatore.
10. Sardar Mohd. Akhtar, M.A., Prof. of Economics, Islamia College, Lahore.
11. M. J. Pathakji, Esq., M.A., Prof., Junagarh, Kathiawar.
12. S. G. Deshpande, Esq., M.A., Lecturer, Gujarat College, Ahmedabad.
13. I. Durga Prasad, Esq., Ph.D., E. C. College, Lahore.

14. D. Ghosh, Esq., M.A., Reader in Economics, Bombay.
15. C. P. K. Fazal, Esq., M.A., Asstt. Secretary, Board of Economic Inquiry, Lahore.
16. N. P. Bhagwat, Esq., M.A., Asstt. Registrar, Co-operative Societies, Lahore.
17. H. L. Pasricha, Esq., Prof. of Economics, Ramjas College, Delhi.
18. V. D. Khanna, Esq., G.D.A., Anarkali, Lahore.
19. P. C. Malhotra, Esq., Prof. R.S.D. College, Ferozepore.
20. D. K. Malhotra, Esq., Lecturer in Economics, Patiala.
21. Kartar Singh, Esq., B.Sc., Associate Professor, Lyallpur.
22. Mast Ram Jain, Esq., M.A., Prof. of Hindu Sabha College, Amritsar.
23. Bawa Narain Singh, M.A., Prof. of Economics, G. N. College, Gujranwala.
24. Ram Lal Bhatia, Esq., M.A., Prof. of Economics, D. A. V. College, Jullundhur.
25. Bal Krishna Madan, Esq., M.A., Research Scholar of the Punjab University, Lahore.
26. H. G. Phillips, Esq., M.A., Prof., Edward College, Peshawar.
27. Mohd. Hussain, Esq., M.A., Lecturer of Hailey College of Commerce, Lahore.
28. B. S. Agarwala, Esq., Ph.D., Lecturer in Economics, Agra College, Agra.
29. Harnam Singh Arora, Esq., M.A., Prof. Khalsa College, Amritsar.
30. Chiranjiva Lal Agarwal, Esq., Lecturer of Hailey College of Commerce, Lahore.
31. Jagan Nath Khalsa, Esq., Lecturer in Political Science, Lahore.
32. S. P. Bhargava, Esq., M.A., Principal, R. R. College, Alwar.
33. I. R. Khan, Esq., Ph.D., Chairman, Deptt. of Geography, Muslim University, Aligarh.
34. A. Ramaswamy Das, Esq., M.A., S.J., Koilpatti, S. I. Ry.
35. M. P. Gandhi, Esq., M.A., Secretary, Indian Chamber of Commerce, Calcutta.
36. S. K. Bose, Esq., M.A., Lecturer in Economics, St. Sts. College, Delhi.
37. Krishna Kumar Sharma, Esq., M.A., Prof. S. D. College, Cawnpore.
38. Babu Ram Misra, Esq., M.A., Lecturer in Economics, D. A. V. College, Cawnpore.
39. Rao Bahadur Rangaswamy Ayangar, Trivandrum (Travancore).
40. H. L. Dey, Esq., D.Sc. (London), Dacca University, Dacca.

41. Sh. Ataullah, M.A., Lecturer in Economics, Muslimi University, Aligarh.
42. B. M. Khanna, Esq., M.A., Lecturer, Rangoon University, Rangoon.
43. B. B. Mukerjee, Esq., M.A., Deptt. of Economics, Patna College, Patna.
44. Ch. Sitaram Sastry, M.A., Lecturer, University College, Waltair.
45. H. Rahman, Esq., M.A., Asstt. Prof. of Economics, Osmania University, Hyderabad.
46. Raj Narain Mathur, Esq., Prof. of Economics, Hindu College, Delhi.
47. W. D. Carter, Esq., B.A., Lecturer, E. C. College, Lahore.
48. S. Majiduddin Ahmad, Esq., M.A., Lecturer in Economics, Muslim University, Aligarh.
49. Panna Lal Agarwal, Esq., M.A., Prof. of Economics, Prince of Wales College, Jammu.
50. Taj Khan Qurban, Esq., M.A., Vice-Principal, M. College, Udaipur.
51. Prof. E. H. Solomon, Rangoon University.
52. Dr. P. Roy, Ph.D., Dacca University.
53. Prof. Sipahi Malani, M.A., Benares Hindu University.
54. Mr. B. P. Sinha, Advocate, Patna.
55. Indu Shekhar Jha, Esq., M.A., Commerce Teacher, Zila School, P. O. Chapra, B. N. Ry.

#### THE MAYNARD GANGA RAM PRIZE

In 1925 the late Sir Ganga Ram, Kt., C.I.E., M.V.O., R.B., Lahore, with that generosity for which he was so well known, handed over to the Punjab Government a sum of Rs. 25,000 for the endowment of a prize of the value of Rs. 3,000 to be called the Maynard Ganga Ram Prize and to be awarded every three years, for a discovery, or an invention, or a new practical method which will tend to increase agricultural production in the Punjab on a paying basis. The competition is open to all throughout the world. Government servants are also eligible to compete for it.

Entries for the next award were invited by the 31st December, 1933. None of the entries was considered to be of sufficient merit and it has been decided by the Managing Committee of the prize that the award should be postponed for another year and that further entries should reach the Director of Agriculture, Punjab, Lahore, on or before the 31st December, 1935.

## REVIEWS OF BOOKS

THE CULTURE AND MARKETING OF TEA, by C. R. Harler. Oxford University Press, 1933.

This book is even more comprehensive in its scope than is suggested by the title. For, it not only deals with the culture of tea but also with its chemistry and pharmacology and not only with its trade but also with its production. The book includes within its scope all the tea countries of the world. It is, however, written with special reference to the industry in North-East India where the author spent many years as scientist to the Indian Tea Association. As may be expected from the position of the author, the parts dealing with the tea plant, its culture and its chemistry and pharmacology are specially full, though fortunately for the layman not too technical. Here, as everywhere else the text is fully supported by appropriate references. These subjects are dealt with in the first two parts of the book. In the third part are described the different tea countries of the world and the organization of tea industries therein. Of the two hundred pages occupied by this part more than a hundred are devoted to tea in North-East India. Students of Indian economic history of the 19th century will feel specially interested in the account here given of the beginning of tea in India. This account is, however, confined to the very early stages of the establishment of the tea industry and stops short of the momentous crisis of the sixties. The problems of labour connected with the industry are also not touched upon. In this part of the book may be gained information not easily available to students elsewhere about the production of tea and the organization of tea industry and trade in China, Japan, India, Ceylon and Java. Though no detailed historical review of recent economic developments will be found here, there are given fairly complete statistical tables regarding production and trade. The book obviously leans more to the scientific side of tea production than its economic side but is none the less valuable for the clear account it gives of these problems of the industry. It is hence, interesting to observe, that the author is keenly alive to the futility of trying to help an export industry like the Indian tea industry by agreements of the Ottawa type. Part IV dealing with the British Trade draws its material chiefly from the report of the Imperial Economic Committee. The author, though he notices the recent restrictive agreement between the chief producing countries of the world, notices neither the circumstances which led to the crisis nor those which made it possible to arrive at the agreement and to work it effectively. Hence the optimistic note on which he ends the book does not sound very convincing. This is merely to say that the scope of the book on the economic side is not very wide; it does not, however, prevent the book from being a very useful storehouse of authoritative information regarding tea production, manufacture and trade all over the world.

D. R. GADGIL.

LANCASHIRE COTTON FAMINE, by W. O. Henderson (1861—1865). Manchester University Press, 1934.

This monograph deals with the cotton famine caused by the American Civil War and its effects on the Lancashire cotton industry. In the opening chapter is to be found a very short account of the Lancashire cotton industry in 1860. This is followed by chapters on the commercial aspect of the cotton famine; cotton supply and relief of distress. Nothing is written about the structure of the industry in 1860 and of any effects that the cotton famine may have had on it. Mr. Henderson does not also indicate whether in his opinion the famine is to be regarded merely as a passing episode in the history of the Lancashire cotton industry or whether it left any durable impress on its fortunes or character. Mr. Henderson's work is essentially a detailed account of the immediate effects that the famine had on the various classes connected with the industry. In the second chapter he enumerates the commercial and industrial groups who profited and those who suffered losses during the period; and a major portion of the work is naturally concerned with the condition of the operatives and the relief of distress. Even the discussion on cotton supply is confined strictly to the period of the famine, to the efforts made to increase the supply and the immediate results achieved. The portion of this chapter relating to India is distinctly unsatisfactory. In discussing the inability of India to supply England regularly with a large quantity of good cotton Mr. Henderson merely mentions, without evaluating their importance, a variety of factors ranging from the lack of contract and bankruptcy acts to the irregularity of the Lancashire demand for Indian cotton. It is positively incorrect to state that in 1860 cotton in India was "a small subordinate crop sown only every third or fourth year." And it is also highly doubtful whether the cotton famine could be said to have given an impetus to the development of Indian Cotton Mills. Certainly the most interesting chapter in the book is that on operatives during the famine. For, in this the method followed is not that of mere episodical narration as in the rest of the book, and a descriptive picture of the operatives as a class during this distress emerges very clearly. Within the narrow limits which he has set for himself Mr. Henderson seems to have performed his task competently. There are exhaustive footnotes throughout and the Bibliography and the Index are particularly full.

D. R. GADGIL.

ENTERPRISE, PURPOSE AND PROFIT. ESSAYS ON INDUSTRY by D. H. Macgregor. Clarendon Press, Oxford, 1934.

The majority of the seven essays contained in this book deal with different aspects of "Rationalisation" of which we hear so much these days. All of them are written within the assumptions of private enterprise. Professor Macgregor thinks that the system of private enterprise is still both important enough and predominant enough to continue to require careful study. Much of the current discussion of

the present system is vitiated by the enquirer bringing a biased mind to it and further stultifying himself by the persistent use of "biased terminology." For example, the word "competition" is often used as if it always meant "excessive competition" and "private gain" is spoken of as if it was identical with "profiteering." Professor Macgregor rightly protests against such looseness in the use of terms and the consequent confusion of ideas in the treatment of important practical problems in the field of economic politics. His own study of these problems is characterized by a careful definition of the various concepts involved and a logical severity of reasoning with no other object than that of finding the truth.

In the first essay entitled "Motive and Interest," the author makes a penetrating criticism of the view commonly held today, that we are at present witnessing a break-down of the system of private enterprise. He points out that the conditions promised for the working of the system have in many cases ceased to exist and that therefore we have been "forced off" the gold standard, free trade and a considerable sphere of private enterprise. What we have been "forced off" has not therefore "broken down" by reason of its own inherent defects. The fact of the break down of the system under radically changed conditions proves nothing as to its innate character. An earthquake does not prove that houses should not be built of bricks!

The second essay discusses the "Sanctions of Rationalization" i.e., the grounds on which public opinion, though not technically expert, may consider the organization of particular industries. The chief sanctions are general industrial tendency, foreign example and the support of leaders of industry. Provision for the control of trade practices being one of the essential sanctions of the rationalisation movement, space has been devoted to its discussion in this essay. The third and fourth essays are statistical studies of enterprise in relation to the questions of fluctuation and risk.

The pre-war magnates having become the post-war rationalizers, the fifth essay deals with some aspects of this new status.

In the sixth essay, some of the matters discussed earlier are illustrated by the reorganization of the British Coal Industry, in comparison with the German cartel at the same date (1930).

The last essay discusses the legislative and judicial history of mutual trading and argues that the no-profit view of the surplus is questionable.

Professor Macgregor has brought a keen and powerful intellect to bear upon the consideration of some of the major problems of practical economics with which the western world is faced today, and there is little that he has touched in the course of these essays, without throwing a flood of light upon it. But adequate illumination comes to the average reader only if he is prepared to undergo the not inconsiderable labour involved in getting at the meaning of the author. It is no doubt a good thing for the reader not to be spoilt by excessive lucidity on the part of the author. But we feel that Professor Macgregor has rather overdone this caution and has been somewhat too grudging in the supply of interstitial and explanatory matter which would have served to keep the reader's mind on springs,

as it were, and rendered the task of understanding the author a little less arduous. As it is his phrases are often much too taut and spare for the average reader.

G. B. JATHAR.

THE PROBLEM OF RURAL INDEBTEDNESS by P. J. Thomas, University Professor of Economics, Madras.

As the author observes this small book has grown from a paper which he submitted to the Indian Economic Conference. After analysing the causes of indebtedness and giving a brief historical review the author gives us an outline of the evils of debt. Then he has summarised the remedial measures adopted in the past. According to him the immediate problem of India is that, while the income has greatly diminished the burden of debt has vastly increased. To solve this problem he suggests that a large programme of productive public works spread all over the country should be undertaken, so that purchasing power and consumers' demand may revive. To give immediate relief to the debtors he recommends the appointment of a Conciliation Board, or Commissioner for adjudicating between the parties. According to him the method of repayment is the crux of the whole problem. "If ready cash can be paid, the creditor would agree to large reductions, but if the amount is to be paid in small instalments lasting over a long period, confidence is lacking and agreement becomes difficult."

To ensure certain payments of debt instalments the author recommends co-operative land mortgage bank. "The large resources, its system of equated payments and the guidance and protection it receives from the state will enable it to undertake such a function satisfactorily."

We have tried to give in brief the outstanding features of the book and feel no hesitation in saying that this small book written in simple and direct English gives us a clear exposition of the problem of agricultural indebtedness in India. The measures suggested to eradicate the evil are also practical. We have been tinkering with the problems of indebtedness and mass poverty for the last three generations and if at all both have increased amongst the masses. As suggested by Professor Thomas the only way to get rid of these two evils is to undertake an extensive and intensive programme of agricultural and industrial development. India's problem is greater production.

B. G. B.

PUBLICATIONS OF THE BOARD OF ECONOMIC INQUIRY Punjab. Nos. 38 to 39, both inclusive.

No 38 is studies in the cost of production of crops in the Punjab. The investigation has been done by Prof. Kartar Singh of the Punjab Agricultural College, Lyallpur, and is in continuation of a series spread over the last five years. It is studies like this which in course of time are calculated to make our

knowledge of facts about Indian agriculture both full and precise.

No. 34 is entitled Economics of Gut Making. This is one of the industrial inquiries initiated by the Board of Economic Inquiry. It was conducted by S. Farzan Ali Shah, B.A., Sialkot City, and some twenty suburban villages were surveyed during the summer of 1932, and the report deals with the industrial, technical and commercial sides of the industry. Some notes are added on the general, social and economic conditions of the workers.

No. 35. Farm Accounts in the Punjab for 1932-33. This is the ninth publication of this series started in 1926. Here we find the financial position of agricultural holdings in some of the districts of the Province. The first publication dealt with some aspects of batai cultivation in the Lyallpur District, whilst the next two issues gave the accounts of some holdings in the canal colonies. In 1927-28 this work was extended to a number of well irrigated holdings and information on the cost of bringing to maturity a crop by Persian wheel was also given since the year 1928-29, the accounts of well-irrigated holdings in seven districts and those of canal irrigated in three districts, along with the cost of irrigation by Persian wheel in a number of holdings in comparison with that by an electric pump have been regularly published. The present and last year's reports contain a section on tube-well irrigation also. The data supplied in the report is of precisely the same significance as that of No. 33.

No. 36. Cost of Ginning and Pressing Cotton in the Punjab, by Pratap Singh Thullar and Ajaib Singh Gulzar.

This is a very interesting paper giving the results of an investigation conducted by the two gentlemen. Results are based on the data supplied by 12 factories in the Punjab, and as such are not very representative. But as the authors have opened up a new field, entirely unexplored so far, they deserve the thanks of all those who are interested in Indian economic conditions.

No. 37. Economic Conditions of Simla Rickshaw men, by L. R. Dawar.

This report presents interesting facts about a singular example of human endeavour to earn a livelihood. The information is not always as complete statistically as some would perhaps like. But there is sufficient material to indicate the general economic conditions of the Rickshaw coolies.

No. 38. Finance and Marketing of Cultivators' Wheat in the Punjab, by F. A. Shah and L. R. Dawar.

The object of the inquiry was to find out how cultivators financed their wheat crop, to study the local marketing conditions and to ascertain how far the cultivators were compelled by need for money to sell their wheat at a disadvantage. Accordingly, inquiries regarding the financing and marketing of wheat were conducted in three of the more important wheat growing districts of the Province, namely, Lyallpur, Ferozepore, and Attock, and the results are summarised in this report.

No. 39. Market Practices in the Punjab, by L. R. Dawar.

In 1929 Commissioners of Divisions were requested to collect information regarding the rules and regulations of Committees of management, if any, in the

markets of their Divisions, and an investigator of the Board of Economic Inquiry made a detailed study in 1930-31 of some twenty-five markets of agricultural produce in seventeen districts of the Punjab. The report comprises a descriptive and critical study of the practices that were found in these markets and give alongside the rules and regulations governing similar practices under Berar and Bombay market registration.

B. G. B.

WHEAT STUDIES OF THE FOOD RESEARCH INSTITUTE, Stanford University, California, 1934.

The drastic decline and prolonged depression of world wheat prices since 1929 have led students of wheat market to search history for precedents which may be useful in interpreting recent price developments and in judging the likelihood of recovery of wheat prices to a substantially higher level during the next few years. The paper under review is such an attempt. The conclusion arrived at by the author is "All present indications support the expectation that surplus world wheat stock will be materially drawn down during the coming year. Yet though conceivable, it now seems beyond the bounds of probability that the world wheat carryover will be reduced to 700 million bushels or less by August 1, 1935. A combination of circumstances, such as short crops, a more active European demand, and improvement in European financial conditions, might start world wheat prices upward; the rising prices might induce relaxation of import restrictions in Europe; and consumption would be encouraged. As a result wheat stocks might be reduced about to normal by August 1, 1935. But such a series of developments is not clearly in prospect; it is possible but we think not probable."

B. G. B.

SOME ASPECTS OF RURAL ECONOMIC IN THE PUNJAB, by B. K. Madan, Published by Rama Krishna & Sons, Lahore, 1934, pp. 52.

This pamphlet gives us the results of a study of the economic conditions of a village—Haripur—45 miles west of Lahore in the Sheikhupur District.

The first chapter traces in brief the past history of the village. The second chapter deals with Land Revenue and Taccavi. Apart from the average incidence of Land Revenue and Occupiers' Rates in the past and present, an attempt has been made to assess the real burden of the total Government demand as it operates on a field of one acre sown with different crops. Chapter III deals with yields. Here the Director of Land Records' estimates the Settlement Officers'

assumed yields, the zemindar's opinions about the yields, the crop experiments results and the prices of important crops are collected and brought together. They afford interesting comparison. Finally in chapter IV rents are treated. Interesting variations in relations between tenants and landlords are noticed and some aspects of absentee landlordism are revealed.

B. G. B.

**THE FARMER AND HIS DEBT**, by Anwar Iqbal Qureshi, M.A., pp. 106, price 2s. 6d.

Published by The Indian Rural Reconstruction League, London, 1934.

The matter contained in this small book is the result of information gained by the author during his tour in Australia, New Zealand and South Africa in connection with the study of Rural Credit and Marketing Organisations of those countries.

The book contains two chapters. In chapter I the author has given an idea of the Indian farmer and his debt and made some very useful suggestions for relieving the farmer of his heavy load. In chapter II the author has given an idea of the various measures of farm relief and the relief of farmer's indebtedness in Australia, New Zealand and South Africa. The suggestions of the author regarding India are based upon what has actually been done in the three countries visited by him.

The book is written in simple lucid English and gives an opportunity to know what other parts of the British Empire have done and are doing to improve the lot of the farmers there. Every one who is interested in the rural welfare of India should make it a point to read this interesting book.

B. G. B.

**IMPERIAL ECONOMY AND ITS PLACE IN THE FORMATION OF ECONOMIC DOCTRINE**, by C. R. Fay. The Clarendon Press, Oxford, 1934. Pp. 151. Price 6s. net.

This book contains six lectures on the economic history of the British Empire delivered by Dr. Fay, as the first Beit lecturer before the University of Oxford in 1933. Dr. Fay has devoted himself for a number of years to the study of the subject and thus was very well equipped for delivering the lectures. His survey of the subject covers a period of over three hundred years from 1600 to 1932 and is divided into five sections, namely, America in the Old Empire, the West Indies and South America, the Empire by Commodities, India under Monopoly and Free Trade, and Ottawa—is it progress or reaction.

The survey is a brilliant one. It brings out the salient points very clearly and is couched in a pleasant style. What Dr. Fay says on all the different topics discussed need not be pointed out here, but his views on the bearing of America on Adam Smith's attack on and discomfiture of Mercantilism and on the Ottawa agreements may be referred to. As regards the former Dr. Fay writes that Adam Smith in the Conclusion of the *Mercantile System* of his third edition of the *Wealth of Nations* "left money and the balance of trade alone and concentrated on fiscal restraints. To these he opposed the system of natural liberty, and this is

where America as a point of theory enters in. For America, like agriculture, denoted nature and with these two allies he fell upon the Mercantilism of old world Europe" (p. 12). At another place (p. 20) he says, "The relief which we get from the distractions of the moment by separating the short period in which we live and suffer from the long period in which underlying forces exert themselves, Adam Smith found in the distinction between artificial Europe and natural America. To him America was the refuge from the restraints which encumber life as it is." As to Ottawa, he opines "Granted that free trade could not be maintained (and who now disputes it?) Ottawa is a move in the right direction. It is progress, not reaction. The notion that Great Britain, having parted with free trade, could orient her fiscal policy on any thing but the Empire seems to me purely academic. What party wants a policy which jettisons three hundred years of Imperial history? Free trade is compatible with Empire, and so is Imperial economy, but a national protective economy, which makes no use of the possibilities of Empire, is outside the pale both of politics and policy." (p. 142).

G. D. K.

---

THE INDO-JAPANESE COMMERCIAL AGREEMENT. by Birendranath Ganguli, M.A., pp. 35. The Indian Press, Ltd., Allahabad.

This small booklet is an attempt to vindicate the policy underlying the Indo-Japanese agreement. The author believes that public opinion on this question is confused and loose thinking coupled with one-sided exposition of the problem by interested sections of the community has resulted in a grotesque exaggeration of the demerits of this agreement. The author has, therefore, set himself to the task of making a balanced study of the implications of the agreement in the light of statistical data.

The 24 pages devoted to this object begin with a comparative study of protection by tariffs and the quota system in which it is maintained that the latter alternative is more certain method of protecting the home industries. We admit that if the object is to raise the price of a commodity, the most direct way of doing it is by restricting the supply, and for the purpose of protection, the foreign supply, of that commodity. For protective duties will not raise the price if the supply is not restricted; and a low duty will generally have no appreciable effect on the supply. But the author's arguments on this point are not sufficiently clear or elaborate so that they create an impression on the mind of the reader that protection by tariffs is necessarily a doubtful method. On the other hand, the dangers or the demerits of the quota system are not given due recognition and one is apt to close the book with the impression that the quota system has none of the defects or the difficulties of its rival plan. For a proper comparison of the two schemes of protection it is, however, necessary to remember at the outset,

that whereas the imposition of duties is an independent or one-sided act, the fixation of quotas is a reciprocal one. While in the former case you are free to levy whatever duties you think are necessary for the proper safeguard of national industries, in the latter case your ability in this respect is necessarily limited by your power of bargaining. Hence, as bargaining ultimately rests on the principle of give and take, the proper valuation of the results achieved has to be based on a careful reckoning of the losses as well as the gains caused by the agreement.

In the rest of the book the author explains the terms and implications of the agreement and judges its value in the light of statistical data. Here we are in more or less perfect agreement with the author. A careful examination of the terms of the agreement referring to plain, bordered, bleached, and coloured goods enables the author to maintain that, on the whole, the agreement will prove effective in checkmating Japanese competition. There are three appendices at the end of the book, one containing the text of the Agreement, another the views on Japanese exchange dumping and the last the difference between *ad valorem* and Specific duties. We believe the book will prove useful to students of economics.

J. K. MEHTA.

---

FOREIGN TRADE OF THE U. S. S. R. Published by Birmingham Bureau of Research on Russian Economic Conditions.

At the present moment when authoritative information on the economic conditions actually prevailing in Soviet Russia is so difficult to obtain; when Press reports are so fragmentary and conflicting and private information notoriously undependable, such a publication as the one under review must serve a very useful purpose. The investigation is directed by the Russian Department of the University of Birmingham and actually carried on by a Bureau of five members, the present study being prepared by Professor S. N. Prokopovich.

The booklet explains the entire foreign trade policy of Soviet Russia and examines the development of exports and imports in the light of the foreign trade monopoly. This part of the study occupies four chapters, the fifth and concluding chapter being reserved for observations on the economic consequence of the planning and monopoly of the foreign trade.

In the year 1917 the Soviet Government allowed foreign trade through special permits. But as that system did not secure the desired result and failed to bring about a satisfactory balance of trade it was replaced by State monopoly of foreign trade. Under such a monopoly the entire foreign trade is carried on by a special department of the State and competition and private profits are completely eliminated from the field. Exports and imports are placed in the hands of the same Agency so that the entire foreign trade comes to be comprehensively viewed and directed from a wider nationalistic point of view. Exports and imports cease to be individually profitable and the gain from foreign trade as a whole

becomes the only guiding consideration. Such a policy, we must observe, is not only possible and advantageous but is the only policy compatible with the true principles of the Soviet government.

It was this monopoly of foreign trade that enabled Soviet Russia to maintain satisfactory trade relations with foreign countries and save its trade from being crippled by the difficulties of foreign exchanges or ruined by the tariff policies of other countries. Actually, Russia has an enviable record of trade. She has suffered less from the general economic depression than most other countries of the world. All this is due to the fact that, thanks to the foreign trade monopoly, she has been able to sell her exports to foreign countries at very unremunerative prices, recouping herself for the loss or deficiency by her imports on more favourable terms. For it is the relative prices of exports or imports that really matter under such a system, and so long as the price of exports does not fall more rapidly than that of its imports her economic position does not necessarily suffer.

In the field of export trade, the pre-war statistics show a preponderance of agricultural produce (about 75 per cent of the total exports); but now its importance has dwindled and manufactures, mining, forestry and agriculture today play more or less the same part. The decline of the exports of agricultural produce is to a great extent accounted for by the lower productivity of her agriculture. In the words of the author of the present study, "the inadequate increase in the area under cereals, the catastrophic decline in animal husbandry and in cattle breeding and poultry keeping, the destruction of the prosperous peasant homesteads under mass collectivisation, the high birthrate and the rapid increase of town populations as a result of the country's industrialization . . . all this precludes the possibility of an increase in agricultural exports from the U. S. S. R."

Russia has made a steady progress in her export and import trades since 1925, but the growth of her national income has proceeded even faster than that of her foreign trade since the revolution, so that it is clear that Russia is becoming increasingly self-sufficient.

The study is profoundly interesting and we are sure the student of economics and the general reader alike will find it so.

J. K. MEHTA.

---

REVIEW OF THE TRADE OF INDIA IN 1933-34.—Department of Commercial Intelligence and Statistics, India—Published by the Government of India, pp. 323, Price Rs. 2-8.

The Review gives us an idea of the condition of foreign trade of the country during the year 1933-34. The total value of the imports of foreign merchandise into British India during the period amounted to Rs. 115 crores and that of exports including re-exports to Rs. 150 crores. Compared with the preceding year, there was a decline of Rs. 17 crores or 13 per cent in the case of imports while

exports recorded an improvement of Rs. 14 crores or 10 per cent. On the import side, the demand for foreign textiles weakened. The decrease recorded under this head amounted to Rs. 16 crores on a total of Rs. 47 crores recorded in 1932-33. This meant a decline of 34 per cent. Under the metal group there was a decline of Rs. 24 lakhs, under machinery and mill work there was an advance of Rs. 222 lakhs due chiefly to large arrivals of sugar machinery. There was also an improvement in the imports of motor vehicles, the number of motor cars imported rising from 6201 to 9759 and that of omnibuses from 2676 to 5496. Imports of foreign sugar continued to decline and only amounted to Rs. 271 lakhs as against Rs. 423 lakhs in the preceding year.

On the export side, the exports of raw cotton rose from Rs. 20½ crores to Rs. 27 crores. The exports of raw and manufactured jute recorded an improvement in value of Rs. 1 crore. Exports of food grains declined from Rs. 16,08 lakhs to Rs. 11,75 lakhs. Exports of tea declined in quantity, but in value rose from Rs. 17,15 lakhs to Rs. 19,85 lakhs. Exports of oil seeds also increased by 21 per cent in value in comparison with the figures of the preceding year. Exports of hides and skins recorded a large improvement from Rs. 7,43 lakhs to Rs. 9,90 lakhs.

The margin between the index number for imports and exports which was 7 points in 1932-33 broadened during the year to 9 points. The visible balance of trade in merchandise and treasure for the year 1933-34 was in favour of India to the extent of Rs. 92 crores as compared with Rs. 68 crores in 1932-33. The transactions in treasure on private account resulted in a net export of treasure, amounting to Rs. 57½ crores as against Rs. 65 crores in the preceding year.

B. G. B.

INDIAN FINANCE YEAR Book—1934. 20 British Indian Street, Calcutta. Price Rs. 5.

This is the Annual Supplement to "Indian Finance" issued from Calcutta by Mr. P. R. Srinivas as Editor and Mr. C. S. Rangaswami as Managing Editor. It is a most useful publication and the editors deserve every credit for putting it into the hands of the public every year. It gives facts and figures concerning almost every aspect of the economic life of India. It is a book of ready reference. A glance at its contents can enable one to know what amount of information is to be had from its perusal. It contains ten sections. They are, Budget Section, Currency and Monetary Section, Trade Section, Industrial Section, Banking Section, Insurance Section, Public Utility Section, Transport Section, Cooperative Section, and Population Statistics Section. Each section is opened with some general and historical remarks and these are followed by statistical tables.

The Supplement appears a little late this time. The Editor's apology is that in its preparation they had to meet with difficulties, disappointments and delays,

but that as they have always regarded it "as a valuable addition to the literature on Indian Economy and not as a routine supplement" they were not prepared "to subordinate the quality of the publication to the rigorous requirements of the time table." Any one who has gone through this supplement and the ones that have come before it can easily realize what time and trouble it must involve to collect facts and figures dealing with the entire national life and will sympathise with the editors in their difficulties and at once accept the apology. One will also hope with them that their experience of the past three years will enable them to bring out the supplement in future within three months of the close of the financial year.

—G. D. K.

THE CAUSES OF WAR.—Published by the Federation of International Fellowships, Maitri, Kilpauk, Madras, at the Hogarth Press, 1934. Price Rs. 2.

This book contains the reports of the various sections of Commission No. 1 that was set up by the Executive Committee of the World Conference for International Peace through Religion to investigate the causes of War. The reports have been written after full discussion by the members of the section concerned by men known to fame such as Sir Arthur Salter, Dr. G. A. Johnston, Mr. C. F. Andrews, Dr. Henry A. Atkinson, Mr. A. Yusuf Ali, the late Sir J. Arthur Thomson. Prof. Alfred Zimmerin, Mr. Fredrick J. Libby and Mr. Henry Wickham Steed. They deal with the economic, industrial and labour, racial, scientific, cultural, educational, and political causes of war. Causes like national monopolies of raw materials, tariffs, migration and economic occasions of conflict in the Far East are discussed in the supplement to the book by Prof. Jacob Viner, Prof. Andre Siegfried, Prof. Moritz Bonn and Mr. W. J. Hinton respectively. These are the names to conjur with in the different departments of life, and what is written by them cannot be anything but really good.

The book is a reprint of the publication issued by Messrs. Macmillan Company. They and others responsible for the original edition have permitted the Federation of International Fellowships to bring out a cheap edition for the Indian public. It is fully realized that India is not likely to make war, but as she is as much linked with the rest of the world as any other country, it is but proper that she should become aware of how the international situation stands and what are the causes that are likely to lead to war. As is noted in the Preface "Wars are seldom an imminent danger in India, but a study of the remarkable documents that follow will prove abundantly that the modern world is coming under the rule of self-interest and intolerance, from which India cannot escape. It is as much for her own salvation as for others that she should be apprised of the defects inherent in present day international relationships."

The book discusses the causes of war dealt with in it thoroughly from every point of view and is well worth study by all.

RECONSTRUCTION— A PLEA FOR A NATIONAL POLICY, by Harold Macmillan, M.P.  
Macmillan & Co., Ltd., pages 128. Price 3sh. 6d.

While admitting that there are indications of revival in various directions Mr. Harold Macmillan in this book affirms that a new economic system is necessary for adopting the best methods for recovery and stability and for helping us to stamp out revolutionary suggestions and to meet the growing needs of the modern world. These purposes, according to the author, cannot be accomplished unless action is based on a new theory of social and economic organisation. In this book he is mostly concerned with the economic revival of Britain and remarks that since economic nationalism is the order of the day Britain also has to adopt a radical and popular programme to correct the present maladjustment and restore harmony. Therefore, he advocates a survey of Britain's exports and imports with a view to her entering into commercial agreements with other powers so that stable commercial relations may be established. In planning her production Britain's internal needs have also to be considered. The exact production quota of the country can be regulated by adequate protection of industries and by grant of regulative powers amounting to monopoly to efficiently organised and integrated national industries. In short, he believes that quantitative regulation is the secret of price stability and therefore suggests the need for centralised and co-ordinated management of productive industries. For efficient co-ordination in purchasing, production and marketing the author points out the need for national industrial councils for each industry which would make for unity of purpose and centralised control. He further advocates the creation of an Investment and Development Board consisting of representatives of industry, Government and finance which body would synchronise and relate political, industrial and financial policy and thereby secure economic equilibrium. These complicated suggestions of the author amount to a proposal for the virtual monopoly of production by a few organised industries and for an artificial bolstering up of prices. The author fails to take into account the interests of the consumer or the elasticity of economic conditions.

In Chapter V the author details the functions of the Industrial Development Board and points out that subjects such as imports, over-production, savings and investments, production and consumption should engage the attention of this body. The author holds that the representatives of finance in this Board should check speculative disturbances in the field of finance and investment. His suggestions regarding Workers' National Trade Union councils and other organisations fall short of the recommendations of the Whitley Committee in that he does not provide for the representation of employers as well as workers. Representation of both these elements in such councils will facilitate the adjustment of differences, promote conciliation and minimise industrial friction. The author's method approximates to the Canadian Industrial Disputes Act of 1907 for settlement of industrial disputes. He rightly rejects compulsory arbitration which has proved a broken reed in many countries. He is opposed to Dictatorship, Fascism and Communism and advocates "a reasonable compromise between the rival claims

of individualist and collectivist conceptions of society—a compromise which might enable the nobler aspects of each to be retained."

Throughout the author pleads for an orderly capitalism which will eliminate the competitive scramble and provide scope for a co-ordinated industrial, financial and political policy.

—B. V. NARAYANASWAMY.

---

REVIEW OF WORLD TRADE 1931 AND 1932 (first half), published by the League of Nations, Geneva, 1932, pages 76. Price 2sh.

This publication of the Financial and Economic Intelligence Service of the League of Nations, dealing as it does, with one of the most disturbing aspects of the present economic and financial crisis, is a very interesting and illuminating study of the decline in the world trade. At a staggeringly rapid pace the decline continued during the three years preceding this publication which embodies the results of a commendable effort to analyse the nature and the causes of this stupendous decline. The total value of the world trade in 1930 was 19 per cent. less than in 1929 and in 1931 it was 28 per cent. below the level of 1930. In the first six months of 1932 there was a further decline of 33 per cent. as compared with the corresponding period of 1931. The quantum of trade too fell by 7 per cent. in 1930, 9 per cent. in 1931 and from 11 per cent. to 12 per cent. in the first half of 1932 as compared with the corresponding period of 1931. As the quantum of foodstuffs in international trade has increased, the fall seems to be due entirely to reduced trade in non-food materials, particularly manufactured goods. The average fall in prices has been in the neighbourhood of 50 per cent. but the prices of food grains and raw materials have fallen to a greater extent and the prices of manufactured goods and items of capital equipment have fallen to a smaller extent than this average. Consequently the serious blow which the fall in prices has inflicted on countries like India producing mainly foodstuffs and raw materials becomes apparent. It is no wonder, then that the importing capacity of such countries has so seriously declined as to cause an appreciable shrinkage in the export trade of industrial countries. The imposition of quantitative import restrictions such as quotas and contingent systems, has aggravated the situation further. Further, the competitive power of countries has been altered as a result of the introduction of exchange control and the imposition of these restrictions by numerous countries. Taking into consideration the decline in the trade of individual countries, it is found that the countries which pursued a relatively liberal trade policy and adjusted domestic costs and prices to changes in the world markets have less seriously been affected by the trade depression.

The price and quantum indices for imports and exports during the years 1924—31 of thirty principal countries, representing three-fourths of world trade have greatly enhanced the value of the work. The balance of trade for a similarly large number of countries has been usefully appended and clearly shows the part played

by the decline in the world trade in aggravating the financial crisis. It also contains a detailed treatment of the trade situation in different leading countries of the world and finally forecasts the spread of a very gloomy state of affairs if the disorganisation of the world trade were permitted to continue at the same pace at which it continued during the period under its study.

The printing and get-up are good and leave nothing more to be desired in this direction. Numerous diagrams have been wisely given at a number of places and they facilitate the quick grasp of facts set out in the work. The book deserves to be widely read by all.

—S. P.

---

THE PRINCIPLES AND PROBLEMS OF FEDERAL FINANCE, by B. P. Adarkar, Professor of Economics, Benares Hindu University. Pages 301. P. S. King.

The problems of federal finance are a matter of current, and as it will become increasingly clear in a short time, compelling interest in this country. Professor Adarkar does not deal with the Indian problems in his book. He has got a chapter on India, but the treatment of the subject therein is meant to be more illustrative than comprehensive. But in every country of the world financial readjustments are rendered necessary by economic and political changes, and in federal states they are imperative owing to shifts in the centre of economic and political gravity and the need for making federalism a new basic conception in the re-organization of economic and political life instead of merely a compromise between the separative and unifying factors in the national life of the country concerned. The new conception is in the making but has still to acquire an effective coherence. In the meanwhile, the swiftness, with which the events are moving, is bringing the problems of federal finance to the fore and making it necessary to find immediate, even though provisional, solutions for them. The study of these problems is, therefore, a matter of practical importance and Prof. Adarkar has, in the book under review, made a contribution towards their understanding which is worthy of serious consideration.

The book is divided into three parts. Part I is devoted to the constitutional aspect of federation and is intended to throw light on the fundamental characteristics of federal system. Owing to the variety and even diversity of constitutional principles and practices, Prof. Adarkar does not, and rightly, attempt any definition of federalism but he is aware, though he does not sufficiently stress the point, that federalism, in most of the countries in which it is operative, is more a hindrance than a help in the organic growth of their political systems and the measure of growth which is taking place is being achieved by circumventing and not adhering to its basic assumptions. The fact that financial adjustments in Germany and in the pre-Hilter régime and the corresponding conception of political relations, involving as it did the setting of standards by the Federal Government, meets with Prof. Adarkar's approval, indicates that if he had set himself the task of analysing the conception of federalism from a not purely judicial standpoint, there would have been a difference of emphasis and, therefore, of conclusions in his treatment of this part of the subject.

In Part II the author examines the financial arrangements of the U. S. A., Australia, Canada, South Africa, Switzerland and India. The conclusion to which becomes in each case and by a collective investigation of the facts is that the position is unsatisfactory and fundamental changes of technique and principles may be anticipated if conflict of purposes and disharmony of effects are to be avoided. Multiple taxation, which exists in the U. S. A., and the confusion of theory and practice, which it gives rise to, are a measure of the anachronistic character of the allocation of functions and resources in that country; and though in other federalisms the position is better, the changing circumstances, political ideals and, therefore, needs make, as pointed out above, a complete change of principles and methods an obvious necessity.

Part III of the book is of special interest as it contains enunciation of the leading principles. The treatment here becomes in places a little over-academic and, therefore, suffers from abstraction, but the position taken by Prof. Adarkar is essentially sound. In public finance it is necessary to act upon the principle of taking from each, including political units according to capacity and give to each according to needs. It is a communistic principle; but even an ultra individualistic state has under modern conditions got to adopt it as a basis of its financial relations owing to the integration of economic and, therefore, social life. It is a wholesome principle of federal finance to make the constituent units self-supporting and self-reliant but it is necessary to have a national minimum of development in services and administration and re-distribute common resources with a view to give to each unit adequate revenues for its requirements. The application of this principle through subsidies, subventions and assignments is by no means easy and it appears to me that Prof. Adarkar undertakes the difficulty of the task; but this is the only method by which political autonomy of the units can be combined with the unity of the entire political system. The federal states have already been forced to adopt this line of development and in Soviet Russia, whose policy in public finance has not received its due at the hands of Prof. Adarkar on account of the mistaken assumption that Soviet Russia is only a federation in name, it has been carried further than elsewhere. Central planning with due regard to the special needs of the units and decentralized administration are the keynote of the financial policy of Russia and are in line with the financial developments of other federal states. The general conclusion of Prof. Adarkar is, however, quite sound and the whole argument of Part III has been developed with a clear understanding of the underlying principles of public finance.

The book is, as already stated, not meant to be a contribution to the problem of financial re-adjustments in India, but as a general survey of the problems of federal finance it fills, to quote from Sir Cecil Kirch who contributes an appreciative foreword to it, 'a distinct gap in the literature on public finance' and 'with conspicuous success.' With this book Prof. Adarkar may be taken to have won his spurs in the academic field and can look forward to the future with confidence and hope. I have no doubt that the promise of his first publication will be more than fulfilled in the years to come.

—GYAN CHAND.

## SOME DIFFICULTIES OF A ‘‘PLANNED ECONOMY’’ IN INDIA

BY

H. RAHMAN, M.A.,

*Osmania University, Hyderabad.*

The conception of ‘‘Planned Economy’’ has recently acquired great popularity among the economists and politicians of the world. It has almost become a fashion to-day to talk of ‘‘planning’’ or of introducing a ‘‘so many years’ plan,’’ whenever you propose to reform the existing state of affairs in any branch of social life. But it is specially in the economic sphere that we hear so much of ‘‘plans’’ or ‘‘planning.’’ The credit for setting this fashion into vogue should, perhaps, go to Soviet Russia, for it is mostly after the well known first ‘‘five-year plan’’ that similar schemes began to be proposed and discussed and favoured and opposed in a number of other countries.

The fundamental idea underlying all this talk about planning is obviously the achievement of the best possible results from man’s economic activity. We have been endowed with a number of wants and with some materials with which to satisfy them. The question is: What is the best method of utilising these materials? In other words: How can we make our limited resources go the longest way possible in satisfying our unlimited wants? Nobody ever denies that the maximisation of human welfare is the object of all economic activity, but when it is asked how that object can best be achieved, fundamental differences of opinion arise, which can be classified, for the sake of convenience, into two broad categories, the basis of distinction being the degree of interference by the state in the economic affairs of the individuals. The outworn *Laissez Faire* Theory would, as we all know, regard the State more or less as a necessary evil and will, therefore, look upon that arrangement as the best in which there exists the

least amount of such interference. The economic history of the greater part of the 19th century is a glorious record of the achievements of this theory, with which also are associated the greatest victories of capitalism. But the closing years of the same century had begun to expose the weaknesses of *Laissez Faire*. With the growth of international competition in industry, consequent on the drawing together of the various continents of the world, it became more and more apparent that Adam Smith's celebrated "Invisible Hand" was by no means strong or comprehensive enough to ensure a steady and smooth progress towards the maximisation of human welfare—the agreed goal of all economic activity. With the progress of the 20th century, breaches in the old *Laissez Faire* System began to be frequent as well as serious, until at last the outbreak of the Great War with its widespread economic and social upheavals and the unprecedented world depression seem finally to have sealed the fate of the old theory. Not only have some of the greatest strongholds of *Laissez Faire* been captured or at least seriously damaged, but the rival system has been, or is being, established under varying names but with the same outstanding character, viz., the more or less complete elimination of the individual's economic freedom and the substitution of the collective authority in initiating, and carrying on, the economic activities of society. Soviet Russia, Fascist Italy, Nazi Germany and the United States under Roosevelt are all examples of the serious efforts that are now being made to substitute a system of national planning for the old one of individual, competitive and planless economy.

We need not, for the present, go into the details of all these various efforts. Germany and Italy we can dispose of at once, because while the one is still groping in the dark, the other seems to be a mere patchwork of old capitalism. The United States, since President Roosevelt came into power, certainly provide a conspicuous example of conscious economic planning on a national scale and the world is watching, with keen interest and a good deal of anxiety, the result of this huge and, in a way, unique ex-

periment. But even in the United States, in spite of the numerous and serious breaks that have been made from the old traditional way, the effort, on the whole, represents an attempt to reconstruct the capitalist system by removing the causes of mal-adjustment in the internal affairs of the country and, as far as possible, also in its relations with other countries. Russia, on the other hand, is committed to an altogether different course. Here it is believed that the capitalist system has served its purpose, has "out-lived its use," and is now a hindrance in the way of further progress. It is, therefore, intended to establish an alternative economic order based on quite different principles and with an entirely different appeal to human motives. While the United States are attempting to raise a shattered system with perhaps a doubtful chance of permanent success, the Russians are trying to evolve an entirely new system with an intense faith in its righteousness and an unbounded confidence in its ultimate and universal success.

This is not the occasion either to compare the merits of these alternative courses or to prophesy which of them will ultimately be adopted by the world. The more important thing for our present purpose is just to find out whether these big experiments in planning on a national scale hold any useful lessons for us in India. I believe that they do, and that the greatest lesson that we can so far learn from them is to realise our limitations before embarking upon a scheme of a planned national economy.

Let us therefore proceed to analyse these limitations and examine their bearing on any scheme of economic planning which may be proposed for India. We may, for convenience, classify our limitations into two broad categories: one external and the other internal. The external limitations may again be divided into (1) those arising from the fact of our being a part of this globe and (2) those which are the results of our forming a part of the British Empire. The days are long past when a nation could arrange its own affairs exactly as it liked to do. With the development of communications, every country has, so to say, become a neighbour of all the others, and neighbours

sometimes prove quarrelsome. Their presence imposes certain restrictions on our conduct which we would very much like to be free from. Let me give a few examples: Suppose the interests of our plan require that we should close our home market against a few or all of the products of one or more of the other countries. Are we really free to do this?—free not only in the political sense, but in what may be called the factual sense, *i.e.*, considering all the facts of the situation? Did we not feel uncomfortable at the news of a boycott of our cotton by Japan and of the same and other products by Belgium and Italy? Suppose, again, that we feel the need of finding an outlet for our surplus population in other countries. How can we bring this about unless with the latter's consent, which we cannot always be sure of securing on terms agreeable to the parties concerned? Then there is the most important question of maintaining international peace. The economic plan of any country may easily go wrong if two other countries come to blows with each other, that is to say, even if the country in question is not directly involved in the struggle, and in case it is so involved, then the coming down of the whole edifice is, perhaps, a practical certainty. How this factor is influencing the attitude of Bolshevik Russia towards Japanese aggression in the Far East is a fact patent to all observers.

No doubt the limitations, so far described, are by no means peculiar to India. But the fact remains that they form important obstacles in the way of national planning and carry home the truth that any planned economy, in order to be stable and reasonably permanent, must be based on more than a national scale. And this brings us to the second factor in our external limitations.

Historical accidents have made our country a part of the vast British Empire. This by itself should have proved a helping factor instead of an obstacle in our way, because it provides us with a broader basis and enables us to join a more or less international economic plan. But unfortunately there exists very little uniformity of economic interests among the various constituent parts of this far-flung Empire. Some modest beginnings

have been recently made in order to create this much desired uniformity of interests. But these have been prompted not by any underlying idea of an Imperial Economic Plan, but only by the exigencies of an unusually abnormal time. If we look at the real and inner feelings of the constituents, we find the same old ideas of Sovereignty and national interests and the same disregard of the interests of others strongly entrenched in the minds of the British, the Dominion and the Colonial Statesmen. We, in India, are especially conscious of the harmful effects of this Imperial relationship. Even if we ignore the past and concentrate our attention on the present state of affairs, we feel that every scheme of national planning in India will have to pay sufficient regard to the realities of the situation. Thus our economic plan may badly require a large reduction both in the military and civil expenditure, on the other hand it may demand a large expansion in what are known as the nation-building departments, but we are painfully aware of our inability to do so. Similarly, while arranging our economic affairs, we cannot afford to keep only the interests of our own country before our minds; we are obliged by the hard facts of the situation not to be unmindful of the economic interests of Great Britain whether in the sphere of trade and industry, of shipping and communications or of banking and insurance.

So far we have been dealing with the external difficulties that are bound to limit our efforts in framing, and acting upon, an economic plan for India. But this is not the whole story. There are a number of internal difficulties which are quite as strong as the others and reduce the chances of a planned economy equally effectively.

In the first place, let us not forget that we are still far from being a united people; ours is a house divided against itself. We care less for national advancement and lay undue emphasis on our sectional interests. Take, for example, the case of usury. Instead of trying to reform this evil on the basis of facts, we look upon the issue from a sectarian viewpoint and take sides accordingly. Many a healthy piece of legislation we have allowed to be ruined

by irrational communalism. The point is too obvious to require illustrations. But it is interesting to note that while the people of other countries ignore their petty differences and join together under a common leadership whenever they are overtaken by any serious crisis, we in India are apt, at critical moments, to lose what little unity we possess in normal times. The present economic depression led to the formation, in a large number of countries, of what are known as "national governments;" but when, after a grim struggle, a great opportunity presented itself at the second Round Table Conference and we were actually within sight of our goal, our leaders failed to rise above their traditional pettymindedness and, by indulging in useless hair-splitting, threw away a chance which others in their position would have snatched with eagerness. Any scheme of a national economic plan is sure to make demands on our magnanimity, mutual confidence and true national spirit. Are we really prepared to fulfil those demands? The present position at least is very disappointing.

Allied with the question of Sectarianism, but at the same time distinct from it, is our attitude towards religious affairs. We are a people notoriously religion-ridden. Instead of being a means towards good life, religion with us is an end in itself. We are simply intolerant of allowing any elasticity or adaptability in religious laws. No matter what happens to our material existence, we dare not touch any social custom to which is attached a real or imaginary religious sanction. The division and fragmentation of land may prove a great obstacle in the way of agricultural progress, but we cannot think of modifying our religious laws of inheritance. Religion enjoins upon us a respect for animal life and in carrying out this command in practice we not only cease to respect human life, but so mismanage our cattle that if the latter were given a chance, they would perhaps prefer to die rather than lead such a famished existence. We require a Miss Mayo to prompt us to legislate against early marriage and we stick to the Purda with all the knowledge of the havoc it is playing with the health of our womenfolk.

Then there is the whole attitude of our people towards things material. They do not regard this life as worthy of any special attention. It is after all an ephemeral life. Happiness is essentially a thing belonging to the other world. While, therefore, no sacrifice is great enough to achieve the latter, efforts to secure material prosperity are, to say the least, unnecessary and unimportant. The result of this over-religious mental attitude is to be seen in the fact that in spite of an immense capacity for self-sacrifice, there is a general lack of inclination to bear sacrifices for economic ends.

By enumerating these obstacles in the way of economic planning, I do not mean to suggest that they are insurmountable. On the other hand I believe that most, if not all, of them are capable of being overcome if only we proceed in a rational way. But launching schemes of economic planning, on a national scale, while these evils are still staring us in the face and the very rudiments of organization are lacking, is, to my mind, like putting the cart before the horse. What we have to do is to take first things first, to begin from the bottom and to proceed gradually upwards. The work of Rural Reconstruction recently begun in the Punjab under official supervision is a step in the right direction and worthy of imitation by other provinces. To find out the proper personnel for this work in sufficient numbers should not prove a very difficult job. From every province we hear persistent complaints of an over-supply of educated young Indians who wander about the towns in search of petty employments. Can we not persuade them to join the departments of Rural Reconstruction in their various provinces and show their spirit of self-sacrifice by staying in the villages and not demanding too high a remuneration for their work? If we only make them understand that there are other ways of serving the country besides filling up the jails, and if we only hold their services in proper estimation, there is no reason why a sufficient number should not come forward to offer themselves for the cause of Rural Reconstruction. Thus alone can we bring about the much desired co-ordination between the various nation-building

departments the absence of which at present is causing a great waste of energies.

It is not relevant to the object of this paper to outline a positive programme of work either in the villages or in the towns. All that is intended here is to emphasise the necessity of bearing in mind the implications of national economic planning. I hope few of us would pin their faith to the appearance in our midst of a Mussolini or a Hitler; for the question will still remain whether he should be a Hindu, a Mohammedan, a Sikh, or a Parsi, but, apart from that, one can legitimately doubt whether these gentlemen have yet succeeded, or are likely to succeed, in achieving a lasting economic prosperity for their respective countries. The same may be said of even President Roosevelt. He has taken a leap in the dark and is now hoping for the events to take a turn for the better. The only people who are acting upon a national economic plan with full consciousness of its prospects and limitations are the Bolsheviks in Russia, and it cannot be denied that success has, on the whole and so far, attended their venture. But those amongst us who, in advocating a system of planned economy, may have the Russian experiment in mind, would be well advised to remember that economic planning is no halfway house between capitalism and socialism. As remarked by G. D. H. Cole, "National economic planning in any sense in which it includes the full utilisation of productive resources, involves public ownership of industry and at the same time public control of the distribution of income." It "involves a strongly organised control over almost every aspect of the economic life and above all over production, over the distribution of purchasing power in all its forms, and over the fixing of prices. It is clearly impossible for any planning of this order to co-exist with Capitalism." In short "any real economic plan involves not merely the infusion of some Socialism into the existing system, but a transformation of the fundamental basis of economic life." Some one may remark: "that is exactly what we want," but if it is so, we should plainly admit it and not introduce Socialism under the garb of economic planning.

## ECONOMIC PLANNING FOR INDIA

BY

KRISHNA KUMAR SHARMA, M.A., B.Com.,

*Sanatana Dharma College, Cawnpore.*

### SUMMARY

Economic planning implies the preparation of a programme of economic development along national lines or through concerted international action. This policy is being adopted by an increasingly large number of countries to deal with the economic and financial crisis. It implies an increasing degree of state control over the economic resources of people. The policy is not new and economists have been emphasising the idea of the great importance of the state in economic sphere for a long time. In the light of the criticism made by the Historical School against the universality and immutability of economic doctrines, the Neo-Classical economists are doing full justice to the potentialities of state intervention to correct the harm caused by uncontrolled self-interest. The teaching of the Manchester School eulogising "unfettered private initiative and general non-intervention by the state" is becoming out-of-date as economists are accepting the necessity of state intervention in economic sphere, e.g., the regulation of wages, control of monopolies, etc. Even capitalists, who for some time vehemently opposed state intervention in business, are accepting the efficacy of state control as against state ownership. Thus planned economy and an organised industrial system do not require a specific type of political constitution for their attainment and state intervention can be introduced as much by persuasion, peaceful propaganda and consent as by other methods. The experience of America and other countries proves conclusively that this policy can be very profitably incorporated into capitalistic economy also.

The preparation of economic plans in which the state is playing a fundamental rôle is thus not inconsistent with the teaching and practice of economics. America, Turkey, Germany, Italy, etc., are preparing plans for their economic development on nationalistic lines to improve the standard of living of people. This step is necessary for Indian conditions also. People here are very poor because of a small national dividend. To raise their standard of living the national dividend should be increased. This requires a careful economic planning system in which the

Government and people have good opportunities of co-operation; but the initiative must come from the former.

A study of the measures undertaken in other countries should prove useful for guiding the policy in India. In the United States of America special legislation has been resorted to and extraordinary powers have been conferred upon the President to give immediate effect to the new recovery measures. The industries are covered by the N. R. A. system, which seeks to increase the purchasing power of people and makes provision for regulating industry, wages and for increasing employment. It also provides control over foreign competition. The policy of carrying out public works over which a sum of 400,000,000 dollars is to be spent annually, aims at providing employment to the unemployed. Loans are to be granted at cheap rates to industrialists, who agree to abide by the codes. Every state is encouraged to pursue a policy of public works programme, and a liaison is secured between the Federal Relief Emergency Administration and the states through the U. S. Employment Service Bureau. There is an agrarian programme of a far-reaching importance, which provides relief to the farmers by re-financing their loans at low rates of interest and in other ways also.

In the U. S. S. R. also two Five-Year Plans have been prepared, by which the economic development of the country is to be secured. For every year a plan is made in advance in all branches of production regarding the investment of capital, etc. Housing accommodation is to be provided to the needy at a great cost and universal popular education is being encouraged. Technical education is also promoted to provide compulsory training of unemployed workers. The help of foreign experts and foreign capital has also been sought to give effect to the programme. There is a comprehensive agrarian programme which seeks to nationalise land and to mechanise agriculture.

In Turkey industries are to be financed by the creation of a special bank under the direct control of the state. The latter is also to supply the necessary capital for the programme. In Canada a special study is being made of the N. R. A. system and the Natural Products Marketing Bill confers wide powers upon the Dominion Marketing Board to regulate the marketing, exports and imports of commodities, particularly of the natural products. In Australia, Japan, New Zealand, Argentine, etc., large sums of money are being spent upon public works to provide employment to the unemployed. A reference to these measures can be found in the World Economic Survey, 1932-33 and in the annual Reports of the Director of the International Labour Office.

In India also the economic plan should embody the main features of the measures pursued in other countries, which may suit our special conditions. The principles for industrial planning should be: (1) increased self-sufficiency as far as conditions permit, (2) the import of goods which we cannot produce profitably, (3) the export of goods to foreign countries where favourable markets are available for our products, and (4) the bringing under the economic plan of trade pacts with foreign countries. The programme should include: (a) the material development; (b) the humanitarian aspect; and (c) the cultural aspect of the life of the nation.

**a. The Material Aspect.**

The material aspect should include an agrarian programme to increase agricultural production and to provide relief to the indebted peasantry along the lines pursued in Australia, Canada, United States of America, etc. Cottage industries should receive special attention with particular reference to their organisation, demand, marketing, methods of finance, etc. The problems of providing a system of technical training should also be considered. The specific problems relating to the major organised industries, e.g., problems of organisation, of marketing, of finance, of foreign competition, etc., requires specific treatment. The purchasing power of the people should be increased by co-ordinating efforts at providing for schemes of public works as slum clearance in towns, housing accommodation, construction of roads in rural areas, etc. The possibilities of establishing employment exchanges should be explored and the problem of educated middle class unemployment should be tackled in the right perspective.

**b. The Humanitarian Aspect.**

Schemes of social insurance, improvement in medical facilities and better sanitation should be framed which may have favourable repercussions upon the health of the people and which may increase the potential national efficiency.

**c. The Cultural System.**

This should involve the introduction of compulsory primary education, which may reduce illiteracy and ignorance and pave the way for the sound foundations of the economic development of the country by improving the outlook of the people.

**The Economic Advisory Council System.**

A special machinery consisting of (a) The Central Economic Advisory Council and (b) The Provincial Economic Advisory

Councils, representative in character, should be created to prepare the plan of economic development, and to review the progress of the past year and also to formulate a scheme for the coming year.

### **Cost of the Programme.**

An estimate of the cost of the programme would be difficult, but the major portion thereof has to come from the Government. According to the current canons of public finance extraordinary expenditure should be met from borrowing and should not be charged to the revenue of a particular year. Special taxation is probably out of the question at present. A plan should be laid down for annual reduction in military expenditure and under several other heads also. The possibility of a policy of devaluation should also be examined. A corporation known as "The Indian Reconstruction Finance Corporation" should be established on the lines of the American Reconstruction Finance Corporation, with Government backing.

### **Conclusion.**

The future of world economy is closely bound up with a system of national economic planning and India cannot afford to remain aloof from same. The Government of India is also gradually realising the necessity thereof. It has invited foreign economic experts to investigate into our economic condition and their Reports contain a mass of useful information. Recently Conferences of an All-India character have also been held, e.g., the Provincial Industrial Conference, the Crop Planning Conference, etc. Trade Pacts with other countries have also been arrived at. These facts bear evidence of the interest that the Government is taking to improve our economic condition; but all these can be useful when they become parts of a carefully prepared economic plan. By pursuing a policy of national economic planning India will contribute her share to the economic recovery of the world.

The economic future of the world seems to be dependent upon planned economy. The world economic crisis has shaken the old economic order to its foundations. There seems to be no dearth of production; goods are accumulating with producers; but people are starving in the midst of plenty. There is mal-adjustment in the economic system. Demand is not keeping pace with the supply of goods. There has been a great fall in the purchasing

power of people and therefore demand has fallen very much. This fact has accentuated the evils of the crisis. Reparations, war debts, post-war protectionism, currency and central banking policy, etc., have contributed to throw the economic system out of gear. International action is necessary, which so far has not been achieved, and in the near future, there seem to be no prospects in this direction. The World Economic Conference was expected to "make the momentous choice between a national or imperial economic planning, fraught with the menace to world trade and industry and the standards of industrial living, and an economic internationalism that through compromise and concession and joint monetary management may restore world prosperity;";\* but it ended in a fiasco. The same can be said about the results of the Disarmament Conference.

The only alternative is national economic planning. This policy is being pursued in various countries. Germany, Russia, the U.S.A., Turkey, Italy, Siam, etc., are planning their industrial development on national lines. The age of unfettered competition and laissez faire policy seems to be fast disappearing and the economic future of the world is likely to be marked by an increasing degree of state intervention. This idea does not seem to be absolutely new. For a long time economists have been developing "the idea of the great importance of the state in economic sphere."<sup>1</sup> They have been stressing the national view-point. The doctrine of universality of economic laws was questioned by Frederich List, who made a powerful plea for the study of economics from a nationalistic point of view. More recently Marshall recognized the significance of the organisation of a state as an important element of national wealth. He further said that "much remains to be done to discover the limits of the work that society can do towards turning the economic actions of individuals

\* R. K. Mukerjee, Presidential Address, Indian Economic Conference, Sixteenth Session, Delhi, p. 20.

<sup>1</sup> J. C. Coyajee, the Fascist Conception of Economics, Indian Journal of Economics, Vol. XV, No. 56, page 14.

into those channels in which they will add most to the sum-total of happiness.”<sup>2</sup> The Neo-Classical theorists are doing full justice to the potentialities of state intervention to correct the harm which may be caused by uncontrolled self-interest into social channels. The state is operating industries to an increasing extent, and is, to a still greater extent, controlling private-owned industries. Economists do accept the necessity of state intervention for reducing unemployment or regulating wages, for controlling monopolies and industrial combinations. Prof. Pigou’s *Economics of Welfare* is full of important dicta on these topics. Foreign trade is being regulated more and more by the state through tariffs, import and export restrictions, quota system, commercial treaties, etc. Thus the teaching of the Manchester School eulogising “unfettered private initiative and general non-intervention by the state” has become out-of-date. The idea that “state intervention in economic production arises only when private initiative is lacking or is inadequate or when state political interests are involved” is based on a recognition of the fact that the individual and the state are complementary forces.

The preparation of economic plans in various countries on national lines is thus not inconsistent with the theory and practice of economics. The necessity of the preparation of a plan of economic development on national lines is very great and urgent in the case of India also, where the bulk of the people are living on the starvation level. The average annual income of the cultivator in India after deducting interest charges on debt comes to Rs. 33 out of which he has to pay rent, taxes, etc., besides defraying his family expenses. This income is very low as compared with that in America, England and other countries.<sup>3</sup> The observations of the Simon Commission, the Indian Central Banking Enquiry Committee, etc., confirm the statement that the standard of

<sup>2</sup> Marshall, *Principles*, page 475.

<sup>3</sup> For the year 1928 the income of the American Agriculturist was estimated at Rs. 900, and that of the industrialist at Rs. 2,800; whereas the per capita income in Great Britain for 1921 was £95 or Rs. 1,425.

living of the people is very low, which reacts on their physical capacity for work and accounts for the high percentage of mortality in the country.<sup>4</sup>

Thus a rise in the standard of living is necessary to improve the material prosperity of the people in this country. Work must be found for the large army of the unemployed and their purchasing power must increase to stimulate their demand. Our lot cannot be improved unless mass, organised action is taken. A well-planned and co-ordinated scheme must be launched with the necessary authority to make it a success. Thus Government intervention becomes necessary; but Government alone cannot achieve much and the co-operation of the people is indispensable for the success of any such scheme. The initiative has to come from the Government and the people can be invited to join hands in their co-operative efforts.

The Government, of course, cannot be charged with utter inaction. They have done many things during the last decade. They have pursued the policy of production and have done some good to industries and to agriculture. The Imperial Council of Agricultural Research is doing useful work in certain directions and fruit farming is being encouraged though to a small extent. The Government is again encouraging, passively though, the restriction of the jute crop and it has also helped in fixing a quota for tea exports. Experts from foreign countries, Sir Arthur Salter in 1931 and Dr. Bowley and Mr. Robertson very recently, have been invited for giving their opinion on economic questions. Their Reports have already been published and contain a great deal of useful information and material, which is bound to do good, if utilised in the proper manner. The Bombay-Lancashire Cotton Agreement, the Indo-Japanese Pact, the Conference of the Directors of Industries, etc., show that the Government of India are becoming alive to the necessity of improving the economic condition of the people. It is, however, true that "tariffs, excise

<sup>4</sup> Simon Commission Report, Vol. 1, p. 334. Also Report of the Indian Central Banking Committee, Vol. I, p. 40.

duties, fixation of zones and of minimum prices, restriction of production under rare circumstances, and trade pacts, all these could become parts of a plan if there were one. But unless and until they form links in a chain with a purpose behind it, they are not going to take us anywhere."<sup>5</sup>

Thus a careful preparation of a plan is necessary for the economic development of the country in such a manner that the natural resources may be utilised with intelligence for the good of the masses. Economic planning leads to greater control of Government over the whole field of production as would make each branch of production conform to the interests of the community as a whole. The assertion that "the attempt to incorporate the method of organised and planned socialist economy into the economic system of capitalism is a futile venture; it is an attempt to combine incompatible elements based on mutually exclusive principles "<sup>6</sup> is absolutely wrong and absurd. From the experiments already made an important inference may be drawn to the effect that planned economy and an organised industrial system do not necessarily require a special type of political constitution for their attainment. Every piece of legislation does involve some interference with individual liberty in the general interest, but such interference can be introduced by consent, peaceful propaganda and persuasion. The experience of America and other capitalistic countries proves conclusively that a centrally planned and co-ordinated industrial system can be very profitably incorporated into capitalistic economy. Control as distinguished from ownership can be easily acquired by Government, and it is control not ownership which is essential to economic planning. It is true that public control of production necessarily involves a certain deduction from the rights of ownership, but the capitalists as a class have acquiesced in it in the past under stress of economic circumstances.

<sup>5</sup> G. D. Birla, Speech at the Annual Meeting of the Federation of Indian Chambers of Commerce, Delhi, 1st April, 1934.

<sup>6</sup> G. T. Grinco, "The Five-Year Plan of the Soviet Union", p. 12.

The lines along which economic planning has been formulated and attempted in other countries should serve as a good guide for India and a discussion thereof is likely to prove useful at this stage.

#### **The United States of America.**

In the U.S.A. there has been formulated a recovery programme of far-reaching importance to improve the purchasing power of the people and to ameliorate their economic condition. The serious banking crisis was met in three ways. Firstly, in the early stages of the crisis the Federal Reserve Banks were authorised to give rediscounting facilities to a greater extent to the member banks and to purchase Government Securities in the open market to enable the member banks to repay their indebtedness. Secondly, the National Credit Corporation was formed in 1931 to grant credit facilities to member banks in temporary difficulties. In 1932, its business was taken over by the Reconstruction Finance Corporation, whose total capital stock amounted to \$500 million subscribed and paid up in full by the Government. The Government also purchased \$825 million of 3½ per cent notes from the Corporation, which with the huge capital at its disposal granted credits to insurance companies, trust companies, banks, railways, etc. Thirdly, legislation was passed to deal with the banking crisis. The Banking Act of March 1932 authorised the Federal Reserve Banks to create a large amount of credit. The latter could also use Government Securities as collateral for their note-issue and thus a greater elasticity was introduced into the banking system. The Emergency Relief Act of July 1932 gave greater powers to Federal Reserve Banks to make advances to individuals and corporations. Formerly they could make advances to member banks only. Greater powers were also given to Federal Reserve Banks to control speculation on the part of member banks.

The budgetary position was improved by reducing expenses and by increasing taxation. There was a cut of 15 per cent in civil

service salaries and of 10 per cent in payments to war veterans. The increased expenditure for domestic recovery was met by borrowing, the debt service on which is to be covered by new taxes on individuals and corporations.

The most important part of the recovery plan is contained in the National Industrial Recovery Act of June 1933. Its object is to increase the purchasing power of the people and with that end in view, provision is made for regulating industry, for raising wages and for increasing employment. The President has been authorised to prescribe on his own initiative codes of fair competition for industries. These codes prevent destructive wage and penalise the policy of price cutting. They also provide for the regulation of business enterprises through licenses, which can be suspended or revoked on violation. These codes, *inter alia*, contain provisions for safeguarding the interests of the labour class. The unfettered right of collective bargaining is secured for labour and maximum hours of work, minimum rates of pay, "and such other conditions of employment, approved or prescribed by the President," are sought to be provided by these codes. These conditions can be secured by mutual consent of the employers and the employees, failing which the authority to prescribe them is vested in the President.<sup>7</sup> Such codes of fair competition have been prescribed for nearly all the major industries. Further, industries which conform to these codes are protected against foreign competition by subjecting the imports to a rigid system of license, the terms of which are to be prescribed by the President.

The second part of the National Recovery Act provides for a comprehensive programme of public works and unemployment relief. This responsibility is entrusted to the Federal Emergency Administrator of Public Works. A very huge sum amounting to not less than \$400,000,000 is to be spent on public works in accordance with the provisions of the Federal Highways Act. As far as possible the maximum of human labour is to be employed

<sup>7</sup> National Recovery Measures in the U. S. A., p. 7.

in place of machinery. There is a plan for the provision of housing accommodation by the purchase of subsistence homesteads to rectify the over-balance of population in industrial centres. Money can be borrowed and obtained by taxation for these purposes.

The agrarian programme is contained in the Agricultural Adjustment and Farm Mortgage Act. There are provisions for restricting the area under production of any basic agricultural commodity, in which rental or benefit payments have to be made upon that portion of the commodity which is produced for domestic consumption. Marketing agreements can be entered into with producers of agricultural commodities and the parties to the contracts are entitled for loans from the Reconstruction Finance Corporation.

There is machinery for providing relief from debt. The Federal Land Banks can issue farm loan bonds at 4 per cent to the value of \$2,000,000,000 to make new loans or to purchase mortgages. The interest is guaranteed by the Government. Those borrowers who cannot repay loans in time can get extension at the hands of a Farm Land Bank and such a bank is to be helped by the Treasury.

The rate of interest is not to exceed 4½ per cent on all loans granted by any Federal Land Bank through farm associations, etc., and the compensation of loss to such banks is to be made by the Treasury. The Farm Loan Commissioner can grant loans to borrowers directly under certain circumstances at very low rates of interest, and similarly, loans can also be granted to any joint-stock bank up to the extent of \$25,000,000 at 4 per cent for securing the postponement for two years of the foreclosure of mortgages held by such banks.

The transportation system is also under the rigid control of the Government under the Emergency Railroad Transportation Act which was to remain in force up to June 1934. It makes provision for security to the employees, whose number is not to fall below a certain minimum.

The states under the Federal Emergency Relief Act of 1933, which is to remain in force for two years can apply for loans to relieve unemployment and to provide relief. The Federal Emergency Relief Administrator has wide powers of control over them. There is a comprehensive scheme to provide employment for the unemployed persons by the construction of public works and the persons so employed are to be provided with housing accommodation, clothing, medical attendance, hospitalisation, etc., under the Unemployment Relief Act. Further, under the National Employment Service Act, there is provision for a national employment system to provide work for those who are out of employment. An association known as the United States Employment Service Bureau is created in the Department of Labour to develop a national system of employment offices in various states. There is an annual programme up to June 1938 according to which a large sum of money has been allocated and for each subsequent year 4,000,000 dollars are to be spent annually.

Each state has to maintain an agency to co-operate with the U.S. Employment Service Bureau and has to make reports concerning its programme and expenditure as prescribed by the Director of the U.S. Bureau. An Advisory Council consisting of employers, employees and the public has been established to formulate policies and to discuss problems relating to unemployment. In short, the U.S.A. recovery programme provides for an increase in the purchasing power by relieving unemployment and by raising prices by devaluation. It makes provision for controlling the production of basic agricultural commodities and for the supply of agricultural credit on a very large scale. There is despatch in taking proper action by giving extraordinary powers to the President.

#### Russia.

In the U. S. S. R. the economic planning programme is very comprehensive and all-inclusive. This system of planning "is an experiment so immense, so novel and so courageous that no student of economics can afford to neglect it. Whether it trans-

cends the limits of human administrative capacity and fails, or whether it meets this challenge and succeeds, it has much to teach us. It is something new in the world.”<sup>8</sup> So far it includes two Five-Year Plans, one of which was started in 1928 and the other in 1933.

An important feature of the programme is provided by the annual control figures which are prepared in advance and which “assign to every important branch of state industry definite tasks with regard to the development of its production during the coming year;” the probable size of the crops is calculated in advance; definite tasks are allotted to the state and co-operative organisations for the collection of grains and raw materials; plans for the extension of areas under cultivation with the help of machinery, mineral fertilisers, etc., are prepared annually and the amounts of imports, exports, etc., are also determined in advance. In fine, the control figures lay down a general economic plan for Russia for a year in advance.

According to the first Five-Year Plan the programme of capital investment in large-scale state industry was to be 13·5 billion roubles, with 50 per cent reduction in the cost of building materials. In the second year of the plan the total amount of capital investment in industry and electrification alone was 4·3 billion roubles as against 2·7 contemplated by the Five-Year Plan. In most cases the actual results achieved far exceeded the estimates of the Plan.

The agrarian programme consists of an increase in the number of state farms, collectivisation of agricultural farms and an increase in production. In 1929-30 the total amount of capital invested in collective farming was to amount to 320 million roubles as against the estimates of 200 million roubles. By the end of the first Five-Year Plan about 50 per cent of the peasant holdings and 60 per cent of the total area under cultivation was embraced

<sup>8</sup> Stuart Chase, quoted by G. T. Grinco in “The Five-Year Plan of the Soviet Union”, p. 15.

in the collectivisation movement. The substance of this form of organisation is as below:—

“ An inter-village machine and tractor station, operated by the state, equipped with a sufficient number of tractors and attachments and provided with an efficient corps of workers, enters an agreement with a number of surrounding villages under which it undertakes the task of mechanical cultivation and harvesting over the entire area embraced in those villages, while the peasants who are the other party to the contract undertake to contribute their labour to all agricultural processes, in a strictly determined order, and to dispose of the entire crop yield, compensation for mechanical work being, of course, deducted.”<sup>8a</sup> This brings about an improvement in the methods of production, increases crop yields and provides a training to the peasants in better methods of production and cultivation.

Co-operation as a factor of organising and stimulating agricultural production also plays an important part. By the end of the five-year period the membership of co-operation was to consist of 85 per cent of the peasants holdings. The total area under cultivation also increased to a great extent.

Housing and city planning also occupy an important place in the programme. The total capital outlay at the end of the first five-year programme on house construction was to amount to 5 billion roubles after discounting the 43 per cent reduction in the cost of building materials. The industrial plants themselves were to provide housing accommodation for 46 per cent of their workers.

The human side has also received a great attention. The welfare of the masses has been sought to be improved. The working day has been reduced to seven hours in most of the factories. The cultural aspect has also been emphasised and a system of universal popular education has been introduced. At the end of the first plan, the number of children in schools was to reach 15

<sup>8a</sup> G. T. Grinco, “ The Five-Year Plan of the Soviet Union ”, p. 155.

million and the total expenditure to 3 billion roubles. A system of technical education has been developed without which the economic plan cannot succeed. Large sums of money are spent on compulsory training of unemployed workers, a system which has gained popularity and which is an effective method for mitigating unemployment. Provision is made for books and periodicals. According to Mr. G. T. Grinco, "The experience of 1928-29 and 1929-30 shows that the planned scale of investments for the education of skilled workers and the tempo of their preparation, as provided by the Five-Year Plan, is actually carried out and even slightly exceeded." (Page 258).

### **Turkey.**

In Turkey the creation of new industries is to be done with the help of a special bank which has been established under the direct control of government. Special attention is to be paid to important industries like the cotton textile industry, the coal industry, etc. The supply of capital is to come mainly through the government for financing the programme.

### **Canada.**

In Canada a special study is being made of the N. R. A. system of the U. S. A. and there is a demand for the repeal of the British North American Act to endow the Federal Government with the power to regulate industry for the whole of the country. This implies a great interference with the autonomous position of the provinces. There is also a comprehensive programme for the regulation and reorganisation of the sale of agricultural and industrial products. The Natural Products Marketing Bill seeks to establish a Dominion Marketing Board with drastic powers, authorised to form local boards and to co-operate with Provincial Marketing Boards. It will have the power to regulate the marketing, exports and imports of commodities, and in other respects also it will have very wide powers. The scheme is to be applicable on application from a representative group of producers,

and on approval from the Minister of Agriculture and the Dominion Board, it will be applicable to all persons concerned with the production and marketing of a natural product. It differs from the British law; because it does not provide for the votes of persons concerned which is required under the British Law.<sup>9</sup>

Special measures are being undertaken in Australia, Japan, New Zealand, Argentine, etc., to push through schemes of public works. A detailed reference to them is made in the Report submitted in June last to the International Labour Conference by the Director of the International Labour Office.

Thus it is evident that other countries are pursuing an economic policy based on national lines. The economic future of India also depends upon a well-planned and carefully thought-out economic programme. The control of the State over the economic life of the people is increasing and India cannot afford to restrict or neutralise this tendency. Our economic salvation lies in strengthening this tendency. A comprehensive programme permeating the cultural, economic and social life of the country should be framed. The plan should be based upon a recognition of the fact that reduced purchasing power has been responsible for the fall in prices and for the universal economic mal-adjustment. What is, therefore, necessary is an economic policy which will increase consumers' purchasing power. It should not be forgotten that "the reduction of hours accompanied by the maintenance of 'wages is, in addition, advocated as an immediate practical way of escape from the crisis on the ground, that it will extend consumers' purchasing power and thereby increase demand."<sup>10</sup>

The economic strength and prosperity of a country depend upon three factors: "First on the extent and quality of its productive resources; secondly on the degree to which these resources are kept in continuous as contrasted with intermittent employ-

<sup>9</sup> The Round Table, June, 1933.

<sup>10</sup> World Economic Survey, 1932-33, p. 122.

ment; and thirdly on the degree to which the distribution of employed resources between different uses and occupations approaches the best distribution attainable."<sup>11</sup> This programme should, therefore, take due care of these three well-known principles. It should thus include (a) the material aspect, (b) the humanitarian aspect, and (c) the cultural aspect of the life of the people.

### **The Material Aspect.**

The material aspect of the programme should aim at an improvement of the total national dividend and an equitable distribution thereof among the various classes of people. It should thus aim at improving the agricultural industry and other allied industries, at diversification of industries and at the restoration of purchasing power. The vast majority of the people in India depend upon agricultural industry; but the prices of agricultural commodities have fallen to a very great extent and the fall is much greater than in the case of manufactured goods. The Indian economic programme should give due recognition to this factor. The agriculturist has been hit hard on three fronts. Firstly, the prices of agricultural produce have fallen; secondly, some of the items on the expenditure side of the budget of the agriculturist are inelastic; and thirdly, the prices of the goods which he purchases have not fallen proportionately. These factors require a proper adjustment to improve the material prosperity of the people.

The most pressing problem with the Indian agriculturist is the problem of debt. The co-operative movement has not been able to solve it. Taking into view the fact that during the year ending June 1930, there were 74 thousand agricultural societies with a total working capital of Rs. 30 crores for the whole of India and that the total agrarian indebtedness has been estimated at Rs. 900 crores, it is clear that the co-operative societies cannot

<sup>11</sup> Bowley-Robertson Committee Report, p. 61.

cope with the problem. The Taqavi policy has not been successful. A large part of this debt is unproductive and before everything else, this problem requires solution to enable the cultivator to improve his standard of living. The purchasing power of the masses and consequently the demand for products of primary and manufacturing industries can improve if the material prosperity of the cultivator is improved. In this connection, the steps that have been taken in the United States of America, Australia, Canada, etc., can serve a good guide and a careful study thereof is necessary. Provision is made in these countries for liquidating the existing unproductive debt, for giving relief by reducing interest rates and for improving the capacity of cultivators to produce more in order to increase their income. In India also, the reform should proceed along these lines. Some debtors cannot pay at all, and their liabilities have, therefore, to be borne by somebody else. For them probably a Rural Insolvency Act is necessary. Others can pay; but they require relief, which can be given by the machinery of debt conciliation officers as in America. In the case of the latter, land mortgage banks can be very helpful. These banks can take the responsibility of paying the debts of cultivators and they themselves can get money back in 15 or 20 years' time. This will prepare the way for agricultural improvements. Adequate information for their organisation is available in the Reports of the Agricultural Commission, the Indian Central Banking Enquiry Committee, the Provincial Banking Enquiry Committees, etc. The Co-operative movement should also be strengthened with the help of the village Mahajan, if possible, along the lines recommended by Mr. Manu Subedar in the Minority Report of the Indian Central Banking Enquiry Committee.<sup>12</sup> Cottage industries should also be improved for which there seems to be a vast scope in India. Japan, Denmark, etc., are supporting a very large population with the help of cottage industries, and in this connection, the problems of finance,

<sup>12</sup> The Minority Report of the Indian Banking Committee, pages 61-72.

organisation, marketing, etc., should receive due consideration.

Industrial development should also become a part of the economic plan. This will provide greater economic stability and the pressure upon land will become less when the surplus agricultural population is gradually but steadily absorbed in industries. In this case the problems of internal organization, of rationalisation schemes, of finance, of marketing, of internal and foreign competition, fiscal policy, etc., require a thorough consideration. Industrial banks, if established along the lines recommended by the Indian Central Banking Enquiry Committee, should prove very useful.<sup>13</sup>

#### **Principles for Industrial Planning.**

The aim should be increased self-sufficiency as far as circumstances permit. We should encourage the development of those industries in which we have great natural advantages and which satisfy the conditions laid down by the External Capital Committee. Wherever possible, home-made goods should be produced to such an extent that our total demand may be satisfied advantageously. We must import what we cannot advantageously produce and we should export those commodities, which we cannot consume and for which foreign countries provide a good and profitable market. Under a system of planned economy our foreign trade should increase. With a rise in our standard of living, our capacity to consume foreign goods increases and when we purchase more from foreign countries, we can also sell more to them. This economic programme should, therefore, improve the international division of labour. We should sell those goods in which we have a comparative advantage and we can profitably import those in which the foreigners have an advantage over us. Trade Pacts will then be of very great advantage to us if they become a part of the economic programme.

<sup>13</sup> Indian Central Banking Enquiry Committee Report, Chap. XVI,

It should be recognised that a policy of drift would not do. That we should agree to increase the imports of British and Japanese cotton goods when the Bombay cotton industry stops working, sending thousands of persons out of employment is the result of a lack of any definite economic plan. Similarly, the internal expansion of industrial development is also going on un-sound lines and the case of the jute mill industry can be mentioned to illustrate the point. Older mills are restricting production because of lack of adequate demand; whereas newer mills are being established. This is a cruel waste of capital and labour which could be avoided in a carefully prepared economic plan.

#### **Purchasing Power.**

A planned system of industrial and agricultural development should increase the demand and the purchasing power of the people by increasing employment and by raising wages. But the unemployment problem is assuming a very acute form and requires special interim remedies also. Unemployment statistics which are very necessary to deal with the situation are wanting in India. The table on page 309 in the World Economic Survey for 1932-33 gives statistics of unemployment for 27 countries; but the figures for India are not there, though she is regarded one of the eight principal industrial countries of the world. Such statistics can be collected by the type of machinery recommended in the Bowley-Robertson Committee Report. When statistical information is available, schemes of public works can be formulated to provide employment. The Report submitted by the Director of the International Labour Office to the International Labour Conference in June 1934 gives the essential features of a scientific public works policy in the light of the experience acquired in various countries. The figures quoted there show how various countries have tried to mobilise their resources for the carrying out of large programmes of public works. In the United States of America for the next three years, the loans for such schemes amount to over 3,300 million dollars. In Germany, the public

works programmes for 1932 and 1933 contemplated expenditure of 4,000 million R. M. out of the total annual budget of 8,000 million R. M. In Italy in 1932 out of a total budget amounting to 21,000 million lire, public works involving an expenditure of 5,800 million lire was carried out by the state, local authorities and subsidised public bodies. A reference is given to the efforts that are being made in Australia, Egypt, Japan, South America, etc., regarding expenditure on public works in that Report.<sup>14</sup> The possibilities of such schemes should be examined in the case of India also. Here too land allotment schemes, subsidised employment and an organised system of public works schemes are quite feasible. The efforts so far made by the Provincial Governments are uncoordinated and can be very successful if they are made parts of a carefully throughout economic programme. The clearance of slums in the towns, the construction of drainage schemes and roads in the rural areas in India will not only provide employment, but they will be of immense benefit to national health.

The possibilities of the establishment of employment exchanges should be examined. In this connection the Labour Commission sound a note of despair when they write that "in the present position of Indian industry, it is most unlikely that they would be in a position to offer an appreciable number of vacancies unless employers were compelled to recruit through them. Such compulsion is possible in special cases . . . but so far as industry generally is concerned, we do not regard it as practicable under present conditions." It may be remarked that under a scheme of economic planning, the possibilities of Central and Provincial Employment Bureaus should be investigated. The problem of unemployment among the educated persons is very acute and requires special consideration.

<sup>14</sup> World Economic Survey, 1932-33, p. 115. Also Report of the Director of the International Labour Office, June 1933, pages 23-27.

**The Humanitarian Aspect.**

The humanitarian aspect should also receive due recognition. The possibilities of the introduction of a statutory system of unemployment insurance should be carefully examined. One cannot easily agree to the views of the Labour Commission when on page 36 of their Report they write that "we cannot regard any national system of insurance with which we are familiar as feasible at present in India." The important question that really faces us is as put by the Minority of the Royal Commission on Unemployment Insurance which was appointed in England in December 1930. The Commission wrote, "What are the obligations of the political government of an industrial community to several millions of persons who through no fault of their own cannot get the employment by which alone they can earn a living, and how can those obligations be fulfilled."<sup>15</sup> The framing of a scheme of unemployment insurance is not altogether impossible in India, if adequate attention is bestowed upon the problem by some competent authority.

Then there is the question of labour welfare, better housing accommodation and particularly of slum clearance in industrial areas and the construction of roads and drainage schemes in rural areas. The fact that workers should live in the slums in important industrial towns is a sad commentary on capitalism, and how can those obligations be fulfilled."<sup>15</sup> The framing of a suitable programme for housing and slum clearance. This should improve the health of workers and provide employment at the same time to a large number of them. Very little is spent in India on medical facilities, and there is no denying the fact that in rural areas particularly they are very deficient. The economic programme should lay particular stress on this aspect of the problem.

### Cultural Development.

The economic programme should lay due emphasis on the cultural development of the people. A better standard of culture should increase their efficiency and is bound to widen their mental outlook. This will infuse into the masses a sense of appreciation of the importance of a better standard of living and they will be better able to take advantage of their increased income and increased leisure. The percentage of literacy in India is very low and in this respect she stands probably at the bottom in the list of the civilised countries of the world. The cultural aspect should be given due importance in the economic programme. The gradual removal of illiteracy will remove ignorance which should secure better standard of living and increased efficiency. The foundations of economic development will be laid on a sound footing if this factor is given due importance in the programme of economic development for India.

### The Economic Advisory Council.

The question is: How to prepare and push the economic programme? In other words, what machinery should be framed to whom the task of the preparation and carrying out of the programme should be entrusted? A study of such institutions in European countries shows that they embody two different principles: "that of securing expert advice, and that of securing representative advice. In Great Britain the former of these principles is the dominant one; whereas in Germany, France and other continental countries the representative principle provides the main basis." India, being a vast continent, the experience of any one single country cannot suit our conditions. Two desiderata are of vital importance here. "The first is that the Government should have for its guidance the benefit of the best expert opinion both as to the direction in which assistance should be given and as to its form and method. The second is that those interests which may be adversely affected by any proposal may have as effective a means of expressing their views as are possessed by those

whom the proposal may directly benefit.”<sup>16</sup> There should be a Central Economic Advisory Council coupled with an Economic Advisory Council in each province to give effect to these principles. The former should be representative of agriculture, banking, commerce, consumers, co-operative organisations, economists, industry, legislature, railways, labour and the Government. It should also have representatives of the Provincial Councils, the Indian States and of national bodies as the Indian Cotton Committee, etc. The chairman should be paid and a man of outstanding reputation. This body should devote its discussions to two main tasks. Firstly, it should draw up the economic programme, and secondly, it should review the progress of the past year and recommend policy for the coming year. An annual Indian Economic Survey on the lines of the annual World Economic Survey should be published, which will present the main facts of the economic situation during the period in an intelligible form and it should be translated into the principal Indian vernaculars. There should also be a guide to official statistical publications.

The Central Council should be supplemented by the Provincial Economic Councils which should also be representative of provincial interests. The problems of cottage industries, cultivation, marketing systems and methods regarding the regulation of the produce and imports of the province concerned can form fit subjects of investigation by them. There should be links between the Government machinery and the Economic Advisory Council system through the presence of Ministers, the membership of officials, etc. Successful results can be achieved only when immediate and prompt action is taken on the recommendations of the Councils by the Government concerned.<sup>17</sup>

An estimate of the cost of the programme would be a difficult matter; but the problem of financing it is very important indeed.

<sup>16</sup> Arthur Salter, A Scheme for an Economic Advisory Organisation in India, 1931, p. 8.

<sup>17</sup> Report of the Indian Statutory Commission, Vol. II, pages 215, 216.

In some cases, the trades concerned and private benefactions may be tapped properly. These sources would prove very inadequate, and ultimately the Government should bear the responsibility of raising the necessary finance. In America and other countries, the policy of devaluation has been followed and a special type of machinery backed up by the state has been created to look to the financial aspect. Special emergency taxation has also been resorted to and expenditure has been curtailed. The establishment of the American Reconstruction Finance Corporation has been referred to above. In this country, there is no possibility of devaluation; special taxation under the present circumstances seems to be unthinkable, because during the last five years extraordinary taxation to the extent of 50 crores has been imposed. There is considerable scope for curtailing expenditure under military and civil heads. That the military expenditure in India is very high and bears a higher proportion to the total expenditure of the Central Government than in any other country of the world has been admitted even by the Simon Commission.<sup>18</sup> It can be considerably reduced and a scheme for annual reduction should be framed. Another feasible mode of providing the necessary finance lies in the promotion of a special institution which may be called as "The Indian Reconstruction Finance Corporation" with huge capital resources, backed-up by the Government. In this connection a study of the organisation and working of the American Reconstruction Finance Corporation should be made to see the applicability of such a system to Indian conditions.

#### **Conclusion.**

The future of the world economic order seems to lie in a system of planned economy. Probably it is inevitable that the control of state over economic life in every country should increase. It is difficult to say how far the state will be able to adjust itself "to the vicissitudes of existence which individually

<sup>18</sup> E. F. Heckscher quoted in the *Mysore Economic Journal*, September, 1934.

and privately conducted economic activities have actually displayed.” Undoubtedly, Governments can “do as much harm by guiding production into unsuitable channels as they have done good by drawing idle resources of land, labour, capital and organisation into use.” But “intervention in the provision of general productive equipment, such as irrigation works, roads, and hydro-electric power, is free from some of the risks of intervention in particular branches of production.” It is also equally true “that the increased range of effect of such mistakes as are made may be offset by the likelihood of fewer mistakes actually being committed, seeing that the State possesses the advantage of a wide field of vision such as individual, mutually independent enterprises lack.” Under such circumstances, India cannot allow her economic conditions to be determined in all manner of ways by individuals and by mutually independent corporations. Thus we cannot afford to remain aloof from pursuing a method, which is being profitably followed in other countries to an increasing extent for their economic development. With a well-planned economic programme in which the acumen and judgment of the representatives of the economists, business-men, industrialists, Government, etc., will play an important part, India should be able to contribute her share to the stability of the economic and financial conditions of the world.

## ECONOMIC PLANNING FOR INDIA- -A SUPREME NECESSITY

BY

M. P. GANDHI,

*Secretary, Indian Chamber of Commerce, Calcutta.*

### SUMMARY

I wish to lay stress on the necessity of a correct economic policy for India which should have the aim of reducing the chronic unemployment and under-employment in the country, of raising the standard of living which is grievously low. The precipitate fall in the price of agricultural commodities has had severe repercussions on the economic condition of the masses in this country who have been in enormous distress and in order to tide over the period of depression, have had to part with their gold holdings. The consumption of various commodities has gone down. The economic policy of the Government in the past has had the effect of keeping India mainly an agricultural country. Economic planning which is very essential at the present stage should have the following primary aims:—

- (1) To make India self-contained;
- (2) To increase the production of various manufactured articles and agricultural commodities;
- (3) To increase the purchasing power and the standard of living of the people;
- (4) To enable India to rank amongst the industrial nations.

India should also have unrestricted power to enter into Trade Agreements with foreign countries in a manner which would be advantageous to her.

I wish to lay stress on the fact that in any future scheme of planning, undue emphasis should not be placed on the development of large-scale industries. India is particularly suited to the development of middle class industries and cottage industries, and it is such industries which will solve the problem of unemployment to a great extent and create conditions in which there will be a more equitable distribution of capital.

The gravity of the problem of unemployment is not realised, in Bengal alone there being no less than 8½ millions of unemployed people. The problem before India at a time when there is so much labour running to waste, is not that of finding labour-saving devices like the adoption of large-scale manufacture, the result of which would only be to throw out of employment a still larger number of persons, but to devise methods to absorb the energies of the partially unemployed and semi-starved millions who, by not using their hands with which Nature has endowed them, have become, as Mahatma Gandhi recently remarked, almost like beasts of burden. Labour-saving devices cannot bring about an improvement in the economic condition of the masses. It is not a case of dearth of labour and the necessity is to convert human labour into goods and this can only be done by necessary impetus being given to the development of industries on a small scale. The question of subsidiary occupation is of very great importance to India as Dr. A. L. Bowley and Mr. D. H. Robertson have observed in their report, and it is a point for consideration as to how far such occupations are deserving of a certain measure of public support both on the economic ground that they are adding to the sum total of economic activity and on the broader grounds of their social value. Along with a policy of protection, conditions must be created in which middle class and cottage industries can be easily carried on in competition with large scale industries and for that purpose adequate State aid must be offered. The Local as well as Central Governments should institute schemes for helping small-scale and cottage industries by establishing co-operative societies, etc. What is needed is a bold policy of expansion. It is equally essential that the Government should take action in consultation with and after securing approval of accredited representatives of public opinion in the country.

Universally, 'planning' is the order of the day. It is only we in India who lag behind in this respect. Other advanced countries in the world are forging ahead with their plans for increasing their prosperity. The United States under the guidance of its energetic President, Mr. Roosevelt, furnishes an outstanding example of the achievements of a nation determined to improve its position with an iron will and with the unstinted co-operation of the various units in the country. Japan is another instance of notable achievement in the domain of manufactures—

she has achieved a proud record of manufacturing within her territory almost everything under the sun at prices which are materially lower than those of most other countries producing similar articles, and of taking very rapid strides in exporting her manufactures to all countries of the world.

The effects of the present world wide depression have been very telling on India, which is primarily a producer of raw material, due to the greater fall in the prices of agricultural commodities in relation to the prices of manufactured articles which enter into our consumption. It is time that the attention of the Government and the people was directed with earnestness to a solution of this important matter.

In this connection it will be of interest to see the recent statistics of production in a few of our major industries as compared with the year 1929, when the depression can be said to have commenced.

	1929-30	1932-33	1933-34
Cotton twist and yarn (lbs.)	833,560,000	1,016,418,000	921,060,000
Cotton piecegoods (lbs.)	562,236,000	694,901,000	645,713,000
Jute manufactures (yds.)		1,032,351,000	1,121,018,000
Paper (tons)	...	41,000	42,000
Coal (tons)	... (1929) 22,700,000	(1932) 18,700,000	(1933) 18,000,000 (approx.)
Iron and steel manufac- tures (tons).		441,000	515,000
Sugar (tons)	...	311,000	645,000 (approx.)

A study of these figures will show that our production in many cases has been substantially reduced as compared with 1929-30 or with 1932-33. It is also noteworthy that even though the production has decreased slightly or is the same, the earnings have decreased considerably due to a precipitate fall in prices.

In regard to agriculture it must also be stated that the monetary yield of crops except in the case of sugar-cane, has seriously dwindled and yet the fixed charges on the cultivators in the shape of land revenue, interest, etc., have remained the same, and thus

their burden has been appreciably increased. This is definitely unfair to the poor agriculturists whose lot was never enviable in the past. Their lot would have been still worse had it not been for the fact that they utilised their past savings, and in order to tide over the present period of acute depression, they even sold their gold hoardings with a view to decrease the enormity of the distress and in the hope of making up the loss as soon as better times returned. This hope is not likely to be materialised at least in the near future.

Our consumption of the various commodities has also gone down severely on account of the greatly reduced purchasing power. Added to this severe fall in the purchasing power, there have been in recent times, floods, famines and earthquakes which have devastated the land and affected the poor masses. At the present moment the condition of the ryots as well as of the middle class people is one which would evoke pity from the hardest of hearts.

But it may be asked, What is the Remedy? The only remedy that suggests is an increased production both of manufactures and agricultural commodities inside the country, a decrease in the chronic unemployment and under-employment of the people and an increase of consumption of various articles necessary for a decent living, by increasing the purchasing power of the people.

Economic Planning, in order to attain prosperity, is a growing necessity of the hour. But it may be asked whether the Government have not had any plan in the past in regard to this matter. A charge cannot truly be levied against the authorities in this country that they have not had any plan for India's development. It could, however, be said without any fear of contradiction that their idea of Economic Planning for India has all along been materially, if not radically, different from the ideas of the people in this matter, and never has any attempt been made seriously and consistently in this direction. Spasmodic efforts have been certainly made during the last quarter of a Century, but they lacked the zeal and fervour and the backing of a strong hand behind them. Too little attention was paid to development of

industries and too much to keeping India mainly an agricultural country. Were it not for this policy, it is difficult to understand that India, the home of raw cotton, would have had to depend so long on Great Britain for her supplies of cloth. Could not India, given the necessary impetus, produce all the cloth she needs, nay even more, from the raw material at hand in plenty? Even at the present time the desire of the Government of India to grow long staple cotton in India is largely with a view to send the same to Lancashire so that she may turn it into piecegoods and send back to India the piecegoods manufactured therefrom. This is a representative example of the notion of the authorities in India in regard to Planning. India imports large quantities of long-staple cotton from America due to paucity of the supply of such cotton here, in order to manufacture finer cloths which are required by the people of this country. It is, therefore, very difficult to understand why India should have to export such superior kind of cotton to another country when she herself can, and is prepared to use it. This unfortunate theory of making India serve as a dumping ground for the manufactures from the West, and particularly from Great Britain, has been responsible for keeping India in its present unenviable position. This mistaken policy on the part of Great Britain is having its repercussions on Great Britain itself, for if Great Britain had developed properly the industrial resources of this vast land consisting of 350 millions of people to-day, she would have been in a fairly prosperous condition, and would have consumed more of British manufactures.

Planning, thus in the past, has largely been with a view to keep India a consumer of manufactured goods from Great Britain and to keep her tied down to the apron-strings of Great Britain.

If, therefore, Economic Planning is to be undertaken with the genuine desire of bringing about prosperity in the country, it will have to be undertaken in a different line altogether. The old notions of planning will have to be radically revised, if not cast away altogether, and the future development of the country will have to be brought about in a manner which would meet with the

wishes of the people and not according to the wishes of the Bureaucracy, dictated from Whitehall. Correct Economic Planning for India should have, I suggest, the following primary aims:—

1. To make India self-contained in the matter of her various requirements as far as possible, considering the suitability of India for the production of various articles.
2. To increase the production of various manufactured articles which are preeminently suited for production in India, *viz.*, cotton piecegoods, iron and steel, sugar, jute manufactures, toilet requisites, cement, etc.
3. To increase the production of the various agricultural commodities for which India is suited to such an extent that she can export them in sufficiently large quantities after meeting her internal demands, to foreign countries, in payment for her requirements of various manufactured articles from those countries.
4. To increase the purchasing power and the standard of living of the people which is grievously low by creating avenues of employment and utilising the man-power and consequently to increase the consumption of the various articles which are a necessity for a decent standard of living, like food, cloth, salt, housing, etc.
5. To enable India to take her legitimate place within a short time amongst the industrial nations of the world and to enter into such treaties, pacts, etc., with other countries, as would allow scope for expansion of her manufactures.

Mentioning about the last item, I am reminded how in utter disregard of Indian interests, the Government of India entered into the Ottawa Agreement in 1932. The working of the Ottawa Agreement has not brought any benefit to the agriculturists for

whose benefit it was intended but, on the contrary, has been definitely harmful to Indian interests in that India's foreign export trade has been artificially diverted from other countries, and various countries have started taking measures against the import of articles from India, and have imposed restrictive measures or high duties, *e.g.*, Roumania recently refused to allow India's hides and skins at her ports. Japan has placed a heavy duty on Indian pig iron and prohibited the import of her rice; Belgium is considering the desirability of purchasing from sources other than India. It is also not sufficiently realised that various regional and territorial agreements now being entered into by various countries in Europe are the result of the Ottawa Agreement by which Great Britain sought to divert the trade of the Empire countries within the Empire. The policy of restriction of world's trade, it cannot be denied, was due to a large extent to the initial step taken by Great Britain.

Another point to remember in this connection is that while Great Britain will enter into Trade Agreements with foreign countries as and when it suits her in order to safeguard her interests, similar opportunity will be denied to India which will be tied down to whatever policy Great Britain wishes her to follow. In devising a correct plan, such restrictions, it will be admitted, will be serious hindrances. The Indian Chamber of Commerce, Calcutta, while commenting on the working of the Ottawa Agreement only recently made the following observation\* which has met with the general approval of the commercial community in India:—

“ In conclusion, the Chamber wish to observe that while the Ottawa Preferences have conferred a clearly visible and substantial benefit on the United Kingdom, the advantage received by India, if at all, in the case of most of her exports is negligible, in the case of some, problematical, and is fraught with the danger of retaliation from other countries, which would doubtless operate to India's disadvantage. The Committee

\* *Vide*—their letter dated 7th Sept., 1934.

strongly feel that the continuance of the Agreement on the present scale will result in definite injury to India's foreign trade and confer no benefit on the agriculturists for benefiting whom this Agreement was entered into by the Government of India, in spite of the repeated and strong warnings to the contrary from the Indian Commercial Community."

In the present state of development of our country we can hardly be said to have reached a stage in which we have to decrease production, as is being done by some industrially advanced countries. All we have to think of is expansion on the right lines, but with a predetermined plan so that such expansion may be well-regulated and may not cause any difficulties in future.

Even in regard to crop-planning, it was practically agreed at the recent Crop-Planning Conference held at Simla in June 1934, that it was not necessary to restrict production of any crop. The question of jute was not before the Conference, and jute is the only crop about which we have to consider the question of a reduction due to the fall in the world's demand of jute manufacturers. Measures are being taken by the Bengal Government in regard to this matter. Crops like rice, sugar-cane, etc., could be substituted in place of jute, in Bengal. Measures will also have to be taken to bring down cost of production of wheat, cotton and other crops, in order to prevent the invasion of the Indian market by wheat from Australia, or say, cotton from Africa. In fact, endeavours will have to be made to see that we produce our crops at prices at which we can export, if we have a surplus after meeting our internal requirements. There is no use producing more cotton or more jute or for the matter of that more of any commodity than can be consumed by us or other countries of the world. The only crop in which we can increase our production at the present moment appears to be linseed for which there is a larger demand owing to the failure of the crop of linseed in the Argentine. It would also be possible to produce more wheat or more rice in India if her economic conditions improve.

In the sphere of industries, we have yet much leeway to make within the borders of the country. Except in regard to production of sugar\* there is hardly any article in which we are truly self-contained. In production of textiles, steel, etc., we have great scope yet. I desire to stress this point, however, that in any future scheme of planning, undue emphasis should not be placed on the development of large-scale industries. India is particularly suited to the development of middle class industries and therefore full scope should be given for such industries on a small scale to develop all over the country. It is the middle-class and cottage industries alone which will solve the problem of unemployment to a great extent and create conditions in which there will be a more equitable distribution of capital. The gravity of the problem of unemployment is not yet fully realised in this country as no statistics are available, as in European countries. It was estimated by the Indian Chamber of Commerce, Calcutta in 1933 that in Bengal alone no less than 8½ million people were unemployed.\* This estimate leaves out of account the partial under-employment of a large number of cultivators. The situation regarding the extent of unemployment in other provinces is nearly similar to Bengal. Everywhere there is too much dependence on agriculture, the earnings from which are precarious and have greatly diminished. Thus the problem before the country, at a time when there is so much labour running to waste, is not one of finding labour-saving devices like the adoption of large-scale manufacture, the result of which would only be to throw out of employment a still larger number of persons, but to devise methods to absorb the energies of the partially unemployed and semi-starved millions who, by not using their hands with which Nature has endowed them, have become, as Mahatma Gandhi recently remarked, almost like beasts of burden. Machine-made goods being initially cheaper

\* *Vide*—Author's monograph on " Indian Sugar Industry—its Past, Present and Future."

\* *Vide*—Memorandum to the Government of Bengal, by the Indian Chamber of Commerce, Calcutta, re " Economic Condition of Bengal—How to improve it? "

than hand-made ones, the latter will, as in the past, be ousted from the market and a large number of people who derive their subsistence at present or add to their income will be driven out of employment. On the other hand, if cottage industries are established with the help and assistance of the Government and the people, some solution can be found whereby the masses and the middle classes can convert their own labour into goods so that what they require for their consumption may be provided by themselves. In conditions like those prevailing in India where there is colossal unemployment and the agriculturists have got spare time extending for over six months in a year, labour saving devices cannot bring about an improvement in the economic condition of the masses. It is not a case of dearth of labour, and of purchasing power bursting forth to absorb goods. There is hardly any purchasing power and the standard of life is too low. The necessity therefore is to convert human labour into goods, agricultural and industrial for its own benefit. This can only be done by giving necessary impetus to the development of industries on a small scale. Even Dr. A. L. Bowley and Mr. D. H. Robertson observed in their report on "A scheme for an Economic Census for India," that the question of subsidiary occupations is very important in India and it is a point for consideration as to how far such occupations are deserving of a certain measure of public support both on the economic ground, that they are adding to the sum total of economic activity and on the broader grounds of their social value. Stressing the importance of the spinning wheel, which provides an excellent subsidiary occupation, Mahatma Gandhi recently observed in the Statement issued by him from Wardha dated the 17th September, 1934. "It is a handmaid of agriculture; it is the nation's second lung."\*

In this connection, I must observe that it is a matter of regret that no statistics exist in regard to the production of our various small industries, the knowledge of which is so essential for the

\* Also *Vide*—Author's "How compete with Foreign Cloth.

purpose of economic planning. I hope, however, that the Government of India will take action upon the report submitted by Dr. Bowley and Mr. Robertson and take suitable steps to fill in the lamentable gaps in the compilation of industrial and agricultural statistics in India.

Recently the Government of India have made a very welcome departure for the purpose of helping small industries. They have decided to grant a sum of Rs. 5 lakhs for the development of the handloom industry in various provinces. An Industrial Research Bureau is also being established with the object of helping industries. Let us hope it will yield tangible results for the promotion of industries.

The policy of discriminating protection pursued by the Government of India during the last few years, it must be admitted, has been of considerable help and if a vigorous and bold policy were pursued now, it would render much greater assistance in making India self-contained in regard to a number of articles. An excellent instance of the success of a policy of adequate protection can be found in the sugar industry which has developed with such rapidity that within only two years of the grant of protection, the industry has been able to increase the production (the annual consumption may be taken approximately at 900,000 tons, *i.e.*, one ton for 400 people) to such an extent as to do away with the necessity of importing foreign sugar completely, and to consider the possibility of exporting sugar outside India.\* Similarly, aid can be given to small industries by the Local Governments in a variety of ways. It must be remembered that it will not be enough to help the big industries alone, by a policy of adequate protection. Our great necessity at the present moment is to help the expansion of cottage industries and small-scale industries. Conditions should be created in which such industries can be safely carried on in competition with large-scale industries, and for that purpose adequate State aid must be offered. There are a number

\* *Vide—Indian Sugar Industry—its past, present and future* " by M. P. Gandhi.

of such industries which can be pursued in all parts of the country, and which are capable of absorbing a good number of the population. It is for the Local Governments to plan and devise measures for helping them, *e.g.*, by making capital available to them, by giving patronage to their production, by freeing them from the clutches of money-lenders who charge exorbitant rates of interest, and by relieving them from the burden of debts by debt conciliation measures, etc. If an improvement is made in the economic conditions in India and the purchasing power is raised (an infallible index of which will be an increase in the present lamentably small *per capita* consumption of articles like cloth, sugar, wheat, rice, etc.), it will mean prosperity for other countries of the world as well, inasmuch as India will be able to import larger quantities of foreign goods. It is wrong to believe that India will produce all her requirements and will import nothing. If she becomes prosperous, she will consume many foreign articles of luxury, and will import many articles which she cannot manufacture economically. It is, therefore, not only in the interests of India alone but in the interests of humanity at large that consumption of goods by a nation, the population of which is 1/5th of the world's population, should be increased. Concerted efforts along carefully conceived and thoughtfully planned lines are thus of vital and immediate necessity. Much can be done by instituting schemes of helping small scale and cottage industries by improving their marketing organisations, by directing production along proper lines, by establishment co-operative societies, industrial banks, and land-mortgage banks, etc. It must be noted, however, that it is only a definite change in the policy and vigorous action along right lines which will be of any help. Small patches here and there will hardly touch the fringe of the problem. What is needed is a bold policy of expansion. What is more, in order to ensure that confidence is inspired in the minds of the people, the Government should take action in consultation with and after securing the approval of accredited representatives of public opinion in the country.

## THE ESSENTIALS OF ECONOMIC PLANNING FOR INDIA

BY

GYANCHAND, M.A., PH.D.,

*Professor of Economics, Patna University.*

“ We may not all be socialists now, but we are certainly (nearly) all planners.” These words of Professor Robinson must be accepted as a fair statement of the present position of the public opinion all over the world. In India the Government has often been blamed for not being sufficiently solicitous of the economic interests of the country, but in the matter of planning the Government, instead of following public opinion, has undertaken to lead it and already the proposals are under way the avowed object of which is the introduction of planned economy into India. The portfolios of Governor-General’s Executive Council are to be redistributed. The functions of the Tariff Board are to be enlarged and it is likely to be placed on a permanent basis. The Indian Tariff Act is to be consolidated, revised and put in a more convenient form. The proposal for having an Economic General Staff has been put off for the time being, but besides the Punjab, which has had a Board of Economic Enquiry for a long period, the United Provinces and Bengal have set up the Boards of Economic Enquiry and the other Provinces are expected to follow suit. The existing commercial treaties are to be overhauled and new ones concluded to promote the commercial interests of India. The deliberations of the two Inter-Provincial Conferences have resulted in the proposals for the establishment of the Central Industrial

Intelligence Research Bureau, a scheme for developing hand-loom industry and another for marketing surveys and the appointment of Senior and Junior Marketing Officers. Bengal has introduced a scheme for the restriction of jute cultivation and restriction of the production of tea and rubber are already in force. The U.P. Government has gone further and accepted the resolution for the formulation of Five Years Plan and commercial interests, European and Indian, are all for planned economy.

The unanimity of opinion on the subject of planning is as remarkable as it is impressive and if it is to be taken at its face value, it is an index to the growing desire of every section in India to join hands for the common good of all. The Governments, Central and Provincial, the Chambers of Commerce, European, Indian and National, all schools of public thought, the Directors of Industries and Agriculture and experts of every kind are all ready to pool their knowledge, experiences and resources to establish a new economic order in this country. We in India are all, and not nearly all, planners. There is no resistance to overcome, no parties to be "co-ordinated," no contradictions, problems or classes to be "liquidated." In America Roosevelt has carried out his measures in a constitutional manner, but has had to reckon with opposition, passive or active; and though his personal popularity may still be the same, the prospect of his going further with the momentum of his start is very doubtful and criticism of his policies and opposition to their execution are gaining in volume and intensity. In India we are starting under better auspices and all measures taken so far have received full measure of public support and have only had the effects of whetting the appetite for more of the same kind. The state of Government finances makes it necessary for them to tread very warily, but once the specious days return, nothing need be in the way of our going ahead "on our way" and enrich the country with the full benefits of the planned economy.

Knowing as we do the difficulties of concerted action in every other sphere of national life, this imposing facade of common

agreement is, on a little reflection, likely to give rise to doubts as to whether it is as substantial as it is imposing. We are all for planning, but we have to make sure that we have a clear understanding of its meaning and implication and have the means at our disposal to take adequate measures to carry out the policy and programme of planned economy. The necessity of planning all the world over is taken to have arisen because there is economic distress in spite of the plenty of material goods and it is necessary to solve the problem of distribution when the problem of production has been solved. Does this apply to India as well? Have we solved the problem of production? The answer does not admit of any difference of opinion in view of the low level of productive efficiency all round and utterly insufficient national income of our people. If that is so, the policy of restriction as a general measure of economic improvement, is obviously out of place in this country. Where we are producing for the world markets, a temporary reduction of particular commodities may be necessary to adjust supply to demand; but as we want more, far more, wealth and not less, it is absolutely wrong to organise scarcity in this country as a measure of long-range planning. With all the poverty that we have, not only in this country, but in every other country of the world organised scarcity as a way out of the existing appalling situation can only be accepted as a tragic illustration of distributive fallacy practised on a scale which points to the bankruptcy of economic thought and statesmanship. But in this country, of all countries, to plan in order to restrict is so obviously out of accord with the facts and needs of the situation that it should not be at all necessary to stress the point.

Planning in India, we have to remember, has to be a measure of economic reconstruction and not merely recovery, for recovery in this country to the 1929 or 1926 or any other selected level may alleviate the present acute distress but is no remedy for the chronic and abject poverty of our people. We have to plan in order to change their standard of living out of all recognition to their present miserable existence.

India is suffering from the effects of the world crisis and improvement of her economic position is limited by the international situation. But her real ills are due to the fundamental defects of her economic life and can only be cured by measures devised for their removal. Even if the rise and stability of prices can be brought about and trade barriers removed or made much less obnoxious than they are to-day, of which, humanly speaking there is no chance, that will not reduce the grinding poverty of the masses or bring hope and cheer into their lives. The vast multitude, for whom we have got to plan are living on the very lowest margin of subsistence, and if our efforts have to bear fruit within the time that matters to them, we have to deal with the basic facts of their existence and so increase their productivity and purchasing power that they can feel a sense of well-being and security which may make their lives worth living to themselves and the community.

It may, however, be urged that all the measures, which have so far been adopted or are contemplated, have just this object in view. The immediate cause of the general appreciation of the need for planning may be the depression and the example of other countries, but its object is permanent and appreciable improvement in the economic condition of the masses; and the fact that there is such a large measure of common consent in favour of making a mass attack on poverty has to be taken as an asset of first-rate importance. That it would be if one could have an assurance that this common consent is based on a common goal and the conditions for reaching it are in existence.

Let us take the latter point first. It will be readily admitted that if planning for any country—much more so for India with its 350 millions of population—is to be attempted, our essential pre-requisite is that the state, which has to be the prime mover in the formulation and execution of all plans, must be sure of its present position and future. In saying this I am not avowing any sympathy, sneaking or otherwise, for dictatorship of any kind. The countries in which planning has been successful to any extent

are all, it is true, being governed by dictators. Roosevelt's New Deal, which may be cited as an exception, has been put through mainly owing to the assumption by him of quasi-dictatorial power; and even the best friends of democracy admit that its future depends upon it showing capacity for decisive action at a time when it is being challenged from all sides—a capacity of which it has not given any convincing proofs in the past. But I am not dealing with that point at all. My point is that India is passing through a period of extreme political uncertainty and doubt. The Government of India is stable enough as things are and will not become less so under the new constitution. But the introduction of provincial autonomy and federation with safeguards, whatever that may mean or amount to, will bring into play new political forces about the alignment or effects of which no forecast is possible. The White Paper, even it is coming, is, it is quite clear, not bringing political peace with it and the Government of India and the leaders of public opinion in India will be pre-occupied in years to come with matters relating to the division or transfer of political power and will not be able to use the latter for the purpose of introducing planned economy in the sense in which the phrase has come to be used in recent years. Whatever our hopes may be about the future, it cannot be denied that we are passing through a period of twilight in our political history and during such a period economic planning which, above everything else, must require on the part of the Government a firm grip of political situation and the prospect of being able to proceed further on an even keel, cannot be successfully attempted, much less carried to its full consummation. With the very best intention in the world the rulers of India to-day or their prospective successors cannot therefore take in hand the task of economic planning for India.

If the above view is correct, our essential condition for the introduction of economic planning in India is non-existent. But there is another, which is no less essential, about whose non-existence also there can be no doubt. Planned economy is a phrase which

in the country of its origin has acquired a significance that carries with it the necessity for changes in the very foundations of social life. But even if the Marxian connotation of the phrase is not accepted, it cannot but be admitted that for carrying out economic changes of the kind and the range, that must be involved in planning of any kind, corresponding changes in all important spheres of social life cannot be avoided. Economic reconstruction without social reconstruction will not only be not fruitful but give rise to internal stresses which will have very undesirable re-action on the whole social economy. We will not only not resolve old contradictions but create new ones, and to the waste of efforts will be added the greater lack of harmony in the different aspect of social life which will have a further disruptive effect on the latter.

When the practical issues, which are absorbing the attention and energy of the nation, turned round questions like a few seats more or less in the legislature, share of the different communities in the public services and entry of the depressed classes into temples, the stage cannot be said to have been set for introducing or carrying out any programme of economic planning. Many acid tests have been prescribed for knowing whether we really combine together for our common ends, but the application of the one test, which would make all others unnecessary, i.e., our willingness to subordinate every other interest to the paramount need for raising the plane, on which our people are living, is still not practical polities. In saying this I ought to add, I am not raising any deterministic issue and under-rating the importance of one social factor or magnifying that of another. But there must be an order of precedence in practical affairs whatever may be the consideration which may lead us to fix it. Economic planning is a big task, big enough to take all our time, ability and resources, and if we are really serious about it, we should rise to the height of the occasion and declare our determination to concentrate our entire energy on its completion. We should do so not only because it is ever so much more worth while than most other things

that are in the fore-front of our public life, but also because it is a matter of extreme urgency that it should be done. As I have said above we cannot adopt this course because we are dissipating our limited resources, material and moral, in tilting against social and political windmills. For economic planning, as far planning of any sort, we require, if I may use a phrase which is overworked but convenient, the right sense of values and that we are lacking in altogether. The ultimate values are important; but if in a paper read at the Economic Conference, nothing ultimate is to be referred to, we must have contingent values to shape our policy and choose our course. But we are off the mark of economic planning altogether and, therefore, all this talk of economic planning is merely an exercise in creating a delusive atmosphere.

Besides these conditions which are essential for economic planning we have to consider the question of the goal. As Sir Arthur Salter said a few years ago at a meeting of the American Political Academy that if he would re-mould the world after our heart's desire, we must know what our heart's desire is. One may even go further and say that it is not enough to know what we want but also be sure about why we want it. "We need," to quote from J. M. Keynes, "by an effort of the mind to elucidate our own feelings . . . we need a new set of convictions which spring naturally from a candid examination of our own inner feelings in relation to the outside facts." This is what is needed everywhere economic planning is sought to be seriously attempted; but here in India where owing to our political subjection our whole trend of national thought has been more negative than positive, the need of first clarifying our feelings and then elucidating them with an effort of the mind is all the more urgent for effective action. The fact that people of widely divergent points of view and interest are all for economic planning is due to our having fallen victim to the lure of a catching phrase. The Russians may be entirely mistaken, but they at least have the merit of being co-herent in their emotions, thoughts and actions. They are out

to establish a classless society and their method is the dictatorship of the proletariat. That gives an integrity to their plans and a purpose to their policies. Hitler, in spite of his obsessions and crude methods of propaganda, also knows what he is about. He is essentially positive and realises that "Underlying philosophy is decisive for the construction of the state." His philosophy has been built upon a race-myth but has given him and the movement which he leads a new set of convictions. Convictions can be right or wrong; and the wrong ones cannot, according to the age-old belief of men, be made the basis of an enduring social order. But in a world in which nothing endures in the long run and the truth is relative, convictions which contain as element of the truth, howsoever relative, can give a point and decisiveness to actions and make it correct from the pragmatic standpoint.

For economic planning, in other words, we want a determined objective and that is just what we have not got. Mr. G. P. Birla in his speech on economic planning delivered at the annual session of the Federation of the Indian Chamber of Commerce held at Delhi on 1st April, 1934, also emphasised the supreme importance of being clear about the goal and then proceeded to define it in what he called "a layman's language" by saying that "the object of economic plan . . . . should be to bring about maximum prosperity with a reasonable amount of effort." Here we have, in plain words, what we should aim at and most other planners in India would, if pressed to state the object of planning, probably say something to the same effect and also feel convinced that if that does not satisfy the delegates or any one of the delegates to the Economic Conference, it is because the academic mind acquires the incorrigible habit of indulging in the niceties of thought and expression for their own sake. What can be clearer than maximum prosperity as the goal of economic planning and who can feel any hesitation in co-operating in "reasonable effort" to attain it? We all want prosperity and the more of it, the better. But we must, of course, remember that human nature being what it is we must not expect too much of it or strain it

beyond the point of endurance. That comes to saying, what Mr. G. D. Birla has said for us in a layman's language already, that our efforts must be reasonable.

Maximum prosperity is a laudable and even unexceptionable goal of economic planning; but the trouble about it is that it can mean all things to all men. That prosperity in itself cannot give us economic security or even fair standard of living for the people in general has been very recently demonstrated by the experience of the United States of America in the period of prosperity and adversity which she has known. When Hoover rode to White House on the crest of prosperity, he and most Americans were, as is well-known buoyant enough to believe that in one country at least poverty had been permanently banished.

Then came the chastening experience of the depression and Hoover's successors realised that wide diffusion of purchasing power and its increase in the hands of the masses was an essential condition of production sustained at a high level of efficiency, and since then he, the N.R.A., the A.A.A., and the other bodies that he has created have been struggling valiantly but so far unsuccessfully with the dilemma of high real wages without high costs. They have, it may be admitted, been successful in creating an atmosphere of manly endeavour in face of overwhelming difficulties and believe that planning is necessary; but considerable increase of purchasing power in the hands of the masses has still to come. It is no use labouring the point. Prosperity, a high level of prosperity, in itself has so far meant extreme contrasts of wealth and poverty and very precarious economic life.

In fairness to Mr. Birla and most other planners in India it must be stated that they realise the need for having a broad base for prosperity; but the general standard of living of the masses cannot be raised merely by economic development of the country. It will be necessary, if that end is to be achieved, to make the masses the principal beneficiary of economic progress. And if that is to be made the main object of economic planning and it will be easy to get for it a large measure of general assent—we will

be brought up against one or two stark facts of economic situation in the country which make anything like adequate increase in the purchasing power of the masses a practical impossibility. The increase to be adequate, it may be repeated, has to change radically and very much for the better the plane of economic existence at which the vast majority of our people are living, and for that we have to create surplus in the hands of the people to enable them to provide themselves with the necessaries of efficiency, health and culture and contribute to the public funds enough to enable the state to develop social services for providing collective security and creative social activities of the highest order. In order to do that we have to multiply wealth in their hands many—and—very manyfold to replace grovelling squalid want by a condition fit for a people who may be taken to have a future worthy of their past.

The multiplication of wealth in India in the hands of our people is limited by many factors but among them the one which dominates the rest is the size of holdings of the cultivators and the conditions of the land tenures under which they hold them. In the landlord provinces not only the size of the holdings is small and they are fragmented, as is the case all over the country, but the conditions of tenure leave no scope for the enterprise of the landlords even if they can be awakened to the need of justifying their existence, which seems to be well-nigh impossible, and the cultivators have got to carry a burden of obligation which is as prejudicial to their self-respect as to their economic position and prospects. In the other provinces the fact that the owners of land are not subject to the onerous obligation of paying rent makes their position relatively better; but judged from the absolute standard—not the one which is suggested by the comparison of the condition of our people with that of the people of any other country, but by the irreducible minimum, for which provision must be made in economic planning—not only the minimum is not attained but it cannot be attained. Improvements in marketing condition, the establishment of land mortgage banks, agricul-

tural research and selection of better-yielding and disease-resistant varieties of seeds—the proposals which have been in the fore of late—will, apart from being slow in operation—make only a slight impression on the stubborn realities of the rural economy which are determined by the small and fragmented size of the holdings—the size which is bound to grow smaller owing to the enormous growth of numbers which has taken place and is continuing—and any hope that these measures in themselves will give us the India without the dismal condition of to-day must be regarded more or less illusory. Every province has its system of land-tenures which has become ossified by the practice of centuries and its growing class of landless labourers for whom no provision can possibly be made in the present framework of agricultural life. If the importance of these elementary facts is duly appreciated and its bearing on the possibilities of economic development understood, we are driven to the conclusion that the surplus in the hands of our agricultural population—surplus adequate enough to find a basis of life on a much higher plane of economic existence—cannot be found.

The same fact is of over-shadowing importance for the prospect of developing large or small industries in this country. At present less than one per cent of people are making their living in the organised industries. The condition of workers in these industries is hardly any better than the condition which they permanently or for the time being leave behind and, therefore, the quantitative increase in the number and size of industries cannot give us the qualitative minimum without which we ought not to be satisfied. But even if that aspect of the matter is not to be considered, the industrial development must be limited in India by the surplus in the hands of our agricultural class. The measure of the size of potential markets in India is not the area of the country or its teeming millions but their buying powers. It may be possible with efforts, which at present cannot be put forth owing to the lack of industrial capital, experience and organisation, to increase the percentage of our industrial population from

one to say three per cent of our total population, in 10 years, but even then capacity to sell and, therefore, the level and stability of their economic life, must depend upon the capacity to buy of the remaining 97 per cent of our population; and as by far the largest part of it is and must remain agricultural, the inexorable facts of their economic situation, which rendered the prospect of any considerable increase in their purchasing power so very remote as to be hardly of any practical value, govern the industrial situation as do the agricultural. What is true of large industries is also true of small industries. They have to, even if they can hold their own against the competition of machine-made goods, which is very doubtful, and their market in the villages, which cannot be done because of the present and potential purchasing power of the masses being extremely limited. Industries, therefore, not only cannot materially reduce the pressure on the land but cannot be established on secure foundations owing to the fundamental difficulties of our rural economy.

The whole discussion of economic planning has so far taken place on the facile assumption that we can introduce planned economy in this country without in any way changing the standards, motives or orbits of economic life. This assumption, which is a pure delusion, is more than anything else responsible for the chorus of approval with which the proposals for economic planning have been received and supported. But when it is realised that economic planning means planned economy, and planned economy must mean a new economic and, therefore, a new social order, we shall understand the full import of this new fashion in our public life. Planned economy and the maintenance of the *status quo* are mutually incompatible propositions and if we want to keep step with the rest of the world in its march, real or simulated, towards planned economy, we must be prepared for a complete economic and social reconstruction; and whatever be the method by which we try to reach the goal, it will essentially involve a revolution in our whole national life, and revolutions can never be carried out without a shift in the centre of gravity of social economy and re-

alignment of social, economic and political factors of national life. The India of planned economy, and the same statement is true of the world as a whole, must, in its mechanism and informing purpose, be entirely different from the India of today; and when this truth is borne in upon those who now have joined in this grand orchestra of economic planning, what looks like symphony of many notes will resolve itself into the most jarring disharmony of discordant notes in widely different pitches and keys.

The line of argument followed in this paper has, it must have been clear from the beginning, been adopted in order to point to the conclusion that the proposed measures of economic planning for India involve confusion of ideas, policy and practice and we shall not get anywhere by them. The conclusion is negative; but lest it be dismissed as being purely destructive of all that is being said or done, I must in concluding this paper, state my position briefly but clearly. I am not at all for drift or fate. I am for social control, with a definite, determined objective. That is to say I am for economic panning for India. But I see that neither we have clearly understood what it means and involves nor we have the means at our disposal for carrying out a far-reaching and comprehensive change like planned economy. I am also not for standing still. Let us by all means re-distribute Government portfolios, enlarge the functions and utility of the Tariff Board, appoint marketing officers, and carry out economic surveys, make use of the fiscal convention to get better terms in international exchange, establish land mortgage banks and have demonstrations of improved methods of cultivation. These are all useful measures and they will have ameliorative effect. But let us not confuse the issues. If the peculiar conditions of our national life or some immutable laws of being make gradualness inevitable, let us proceed gradually, step by step, from precedent to precedent and build slowly but surely. I am not for all or nothing. But if we permit ourselves to hope that we will, thereby, in a measurable time, bring economic planning into full operation, we shall only be laying in store for our people a disillusionment of the worst kind.

The pace, at which the world events are moving, is already disturbing enough and it does not look as if any country will be in a position to choose its own tempo of change of progress. But even if we can withstand the impact of these forces, we certainly cannot raise false hopes and build upon unity of professions without any unity of thought, purpose and action.

# ECONOMIC PLANNING OF INDIA

BY

P. S. SODHBANS, F.L.A.A., R.A.,  
*Registered Accountant, Lahore.*

## **Introduction.**

The importance of the subject is now being realised by the public as well as Government. A number of meetings and conferences have been convened to discuss various points in the economic reconstruction of India. The Crop Planning or Crop Restriction Conference recently held at Simla indicates the necessity of a radical change in our agricultural economy. The Rail-Road Conference shows the urgent need for improvements in our transport system. India is not the first to feel such a necessity of change for even the advanced countries have had to mould their structures according to changed circumstances. Great Britain, the only country which could be proud of laissez-faire policy, had to resort to a policy of protection in the face of the growing keen world competition. United States of America had a country-wide survey before the present system came into existence.

## **Present Position.**

Our present position is highly unsatisfactory.

A deplorable state of affairs is revealed if we examine the distribution of our occupations or our income per capita.

		Per cent.
<i>Occupations:</i>	Organised industries	... 1
	Administration	... 2
	Trade	... 2
	Agriculture	... 80
	Miscellaneous	... 9

Although agriculture is the most important occupation in India the yield per acre is the lowest in the world. The pity of it is that we have got immense resources, still we are the most backward nation. This can be seen from the figures of our income per capita arrived at by various persons.

*Per Capita Income.*

Estimated by		Relating to	Income
		year	per head
			Rs.
Dadabhoy Naoroji	...	1870	20
Lord Cromer	...	1882	27
Baring-Barbour	...	1881	27
Digby	...	1898-99	18.9
Lord Curzon	...	1900	30
Mr. Findlay Shirras	...	1911	50
The Hon'ble Sir B. N. Sarma		1911	86
Professor K. T. Shah		1921-22	46
Simon Commission		1928	110
Sir M. Visvesvaraya	...	1933	60

In comparison with other countries we are absolutely in a shameful position in this respect:—

	Income per head		
	Rs.		
United States of America	...	...	1070
Australia	...	...	810
Great Britain	...	...	750
Canada	...	...	750
France	...	...	570
Germany	...	...	450
India	...	...	45

Mr. G. D. Birla in his "Plea for planning in India" has very clearly discussed the real condition prevailing among the agriculturists. He analyses the position by taking the figures of the agricultural production—

	1929-30	1932-33
Rice	311	306
Wheat	105	95
Groundnut	266	283
Raw sugar	28	47
Cotton	52	55
Jute	103	71

(The figures of Cotton and Jute are in lakhs of bales, the rest are in lakhs of tons.)

It will be seen that the production of groundnut and raw sugar has increased while that of rice, wheat and jute has decreased. On the whole, it may be said that agricultural production has been more or less stationary. But on the other hand, owing to the heavy fall in prices of agricultural products, the charges like revenue, interest, etc., being fixed, the margin of profit has almost disappeared. The fall in the prices of goods which the farmer consumes being comparatively less than of those he produces has added to his difficulties. The severe plight of the farmer has naturally reflected upon what he consumes.

	1929-30	1932-33
Consumption of mill-made cloth	12.40 yds. per head.	11.94 yds. per head.
Consumption of kerosene	232 millions gls. (avg. 10 yrs. ending 1930).	213 million gls. (1933).
Consumption of salt	19,65,000 tons (avg. 10 yrs. ending 1930).	18,84,000 tons (1933).
Precious metals	35 crores (Imports 1928-29).	65 crores (Exports).
Inland money orders issued	Rs. 93 crores.	Rs. 74 crores.
Post cards	566 millions.	451 millions.
Number of 3rd class passengers originating	61 crores.	48 crores.

The figures are self-explanatory. But for the sale of gold God knows what would have been the result. In 1929 we used to import

gold at Re. 1 per head but in 1932-33 we exported at Rs. 1-13-0 per head which means a gap of Rs. 3 in the transaction of precious metals alone. But the consumption of other necessities has also fallen. From this Mr. Birla estimated that the average income of an Indian has fallen by Rs. 4 since 1929 which is quite a big sum for a poor country like India. Our consumption at present is below the safe minimum. The new circumstances require a very serious consideration and immediate action.

A similar position is revealed on the side of industries in India. The fact, that some industries are doing well and are declaring better dividends has created a paradoxical view of the real situation among the public as well as in the official circles. But if we compare the production figures the problem will be a bit clearer.

(000 omitted)

		1929-30	1932-33
Cotton twist & yarn	833,560 lbs.	1,016,418 lbs.	
Cotton piece-goods	562,236 lbs.	737,185 lbs.	
Mill consumption of raw jute	... 6,400 bales	4,400 bales.	
Paper	... 41 tons	41 tons.	
Coal	... 22,700 ,, (1929)	18,770 ,, (1932).	
Manganese	... 750 ,,	88 ,,	
Salt	... 148 ,,	150 ,,	
Iron Ore	... 1,433 ,,	673 ,,	
Pig Iron	... 1,376 ,,	880 ,,	
Tea	... 432,800 lbs.	433,400 lbs.	
Silver	... 7,300 ounces.	6,000 ounces.	
Sugar (raw)	... 2,704 tons.	4,651 tons.	

It will be seen that the production, with the exception of Cotton and Sugar, is in the majority of cases reduced. At the same time, it must be remembered that in India most of the industries mentioned are working under protection or enjoy monopoly which eliminates to a certain extent competition from abroad. Secondly, certain industries are still in their infancy and have not developed to cause a serious internal competition. Thirdly, Tea or Jute have made their position better by restricting supply. Therefore the prosperity of these industries cannot reflect upon the real position of the country.

Various trade agreements such as the Ottawa Agreement, the Mody-Lees Pact, and the Indo-Japanese Agreement have been signed by India but none of them is free from public criticism and they are deficient in their benefits to India as compared with other countries. The Ottawa Agreement resulted simply in the diversion of our trade, the Indo-Japan Agreement encouraged export of raw materials and import of manufactured goods and in the Bombay-Lancashire (*i.e.*, Mody-Lees Pact) Agreement India has not gained much. While India has agreed to give a part of her market to Lancashire goods, Lancashire has given no undertaking to buy any raw cotton from us.

From this it is clear that efforts made by Government and public to improve the situation, seems to have achieved little. This is all due to the lack of a sound plan in our efforts. Nothing will be gained by tackling the problem haphazardly.

India's need of a plan arises primarily from the fact that she possesses outstanding natural economic resources and advantages which have been very inadequately appreciated and inefficiently explored. Where some attempts have been made to develop them they have been so desultory that the results have been disappointing. An economic plan is needed to develop the resources that are undeveloped and to put right the development where it has taken a wrong direction. It would be fatal if we had no definite plan in view and were simply pushed one way or the

other according to the demand of the immediate problems without any idea of our final goal. It is easier to formulate a plan at this earlier stage of our country's development.

It is difficult to conceive why one of the greatest producers of raw cotton should import such immense quantities of piece-goods or why the world's largest grower of oil seeds should depend upon foreign countries for paints, varnishes and soaps. With immense resources of bamboo, timber or grass, India could be very easily an exporter of paper, but she imports most of her requirements in the line. A country, perhaps the greatest producer of hides and skins, importing finished leather and leather goods from abroad is an economic paradox and a national humiliation. Similar is the case in various other lines in which we have got resources to develop. We have huge international markets, yet we do not realize the importance of filling these with goods produced from our own factories.

Exaggerated economic nationalism, economic consequences of war debt and reparation problems, new tariff and currency politics adopted by other countries are exerting great pressure on our own economy. To counteract their unfavourable reaction it is necessary to plan a defensive measure. The startling developments in foreign countries have forcibly impressed upon us the need for adoption of our own economic organisation to the new changes.

If countries like Great Britain, United States of America and France, decide to refashion their monetary and exchange policies, we shall be compelled to modify our system in the light of such developments. If our customers make new decision as to what to buy and from where, we as exporters of a great variety of goods will have to make necessary arrangements in our own economic and fiscal policy. If Japan decides to grow cotton in her own new colonies India will have to seek new market or expand her own industry. The remedy of all these is planned economy wherein every tendency is carefully studied, every contingency widely provided for and every method clearly elaborated.

**Problems.**

The Government of India have now realized the necessity of such a plan as is evident from the resolution based on the Economic Conference which was held in Delhi, April 3rd to 6th, 1934. This conference presided over by the Hon'ble Sir George Schuster, ex-Finance Member, and attended by leading officials from every province, embarked on a general survey of the whole field of the agricultural and economic development supplemented by the industrial research for the development of cottage industries as a supplement to agricultural operations. The function of such an Industrial Research Bureau shall be as under:—

- (1) Collection and dissemination of industrial intelligence.
- (2) Collaboration with provincial Directors of Industries and industrialists in all matters relating to industrial research.
- (3) Publication at intervals of bulletins relating to industrial research and other matters connected with industrial development.
- (4) Assistance to industrialists in India by giving advice and making suggestions as to the directions in which research should be undertaken.
- (5) Collaboration with the various organisations of the Central and Local Governments with a view to ensuring that specifications prepared or issued by them provide as far as possible for industrial standardisation.
- (6) Rendering assistance in the organisation of industrial exhibitions in India.

Such efforts will, of course, do some good to India's industrial development. But the real problems confronting us while forming a plan for our economic and industrial betterment are different.

There is a pronounced lack of equilibrium between agriculture, industry and other channels of economic activities. Low yield per acre, uneconomic fragmentation, chronic indebtedness have rendered agriculture, the most important occupation in India, unprofitable and unproductive. Industries are handicapped by inefficient technical service or low quality of raw material. The discriminating protection policy has afforded some industries a small measure of security, but unless it is supplemented by readjustment of internal freight rates and sympathetic stores purchase policy, the development will never be complete. Banking is still undeveloped. A great part of our population and a large number of our small towns are ill-provided with banking facilities. In the absence of industrial exchange, or mortgage banks our industries and foreign trade have to be content with their own resources and sometimes face competition of other countries who have such facilities. Growing unemployment is destroying the morale of the rising generation. These problems as will be seen, cover the entire phase of our economic life. The solution of every one of them is a matter of deep concern and some of them have already assumed grave aspects and require immediate attention. The problems being of great magnitude our endeavours should be of like proportion.

#### **Forms of Plans.**

There are various forms of plans and we will have to examine each of them to see which is most suitable to Indian conditions. Extreme type of state socialism, enforced in Russia can hardly be acceptable to India. The basic principles of Russian experiments are quite against Indian tradition, outlook or philosophy. But what is required in India is a co-ordination of State assistance and individual initiative.

Planning on this principle has been inaugurated in other countries like United States of America, Italy, Turkey, etc. In United States of America the National Recovery Act has done marvellous work and in Turkey the activities of the State have been

more apparent because the industries were comparatively undeveloped. In the early stages of Japanese economic development State played an important part. Unlike Japan, Italy has followed a State-aid policy but instead of taking direct initiative it placed at the disposal of the people its resources and assistance to encourage them to take the initiative. In the Punjab such a step was taken by the local Government by taking shares in the Punjab Sugar Corporation, Ltd., but it has not helped us as the management was not in proper hands.

In the absence of political power it would be rather difficult to induce Government to accept many of the proposals. But certain parts of the plan may appeal even to our present Government and therefore be readily undertaken. For the remainder, if the people combine and organize, much can be done to make an encouraging start.

Let us now examine the various departments of our economic activities.

### **Agriculture.**

Agriculture is our biggest industry in which about 72 per cent of our population is engaged. Therefore it requires our foremost attention in any scheme of planned economy that we may evolve. India would no doubt aim at becoming self-sufficient with regard to her food supply, but the purchasing power of the mass of our population shall have to be strengthened in order to provide scope for industrial and commercial development. Moreover, land revenue has to remain an important head in provincial revenue in spite of serious defects in the present system.

The Government have to a certain extent tried to aim at the object, but before devising any plan for agriculture a close study of the whole problem is required. The primary need of agriculture is improvement in the technique of production and in the quality of crops. Very antiquated methods of cultivation are yet prevailing in India. Implements, manures, quality of seeds and cattle and rotation of crops, have shown little improvement. Old

customs and blind traditions have still great influence on the productive outlook of the peasant. The cumulative result of all these factors has been progressive impoverishment of the soil and has affected greatly the cultivators' conditions and the country as a whole.

The first part of a plan for Indian agriculture would include improvement of the human, the animal, the mechanical and the land factors. Spreading of education in rural areas on a more extensive scale will make the cultivators better informed, progressive and self-reliant.

The Hon'ble Mian Sir Fazal-i-Hussain while he was Minister for Education in the Punjab realized the position and chalked out a programme of education of the masses by opening up schools and colleges in the length and breadth of the province. All huge sums spent on agricultural research by the Government would go to waste so long as those for whom it is intended remain ignorant and illiterate as they are to-day. Elementary education would take some time to reach the cultivators. Therefore travelling, demonstration and lectures should form an essential part in agricultural education and propaganda, just as in other countries like Japan, Russia and Germany.

Another question which requires careful attention is that of the division and subdivision of landholdings—an important factor affecting agricultural output. Laws of inheritance have made the average holding uneconomical. Voluntary or compulsory consolidation of landholdings should at once be urged as circumstances may demand. In the Punjab some attempts were made towards this end through the co-operative department, but the success achieved is not appreciable. Side by side with this excessive pressure on lands should be reduced by undertaking co-operative farming and diverting the population to other occupations. There are yet large areas in India where rainfall is very uncertain and insufficient and requires to be irrigated. On the other hand in some areas of abundant rainfall water becomes a positive danger to crops and drainage is seriously needed. Therefore a

complete irrigation survey based not only on dams and canals, but also on wells and lift irrigation should also form part of the plan.

Next the question of a well-conceived regulation of the crop in proportion to its demand requires careful consideration. Recent cases of jute in Bengal, of cotton in the Punjab, Sind and Central India and of wheat in the Punjab and U.P. should serve us a lesson for future and our plan for agricultural economy should provide effective checks against repetition of a similar contingency.

In this connection we may well consider suitable alternative crops which could be profitably cultivated on the area relieved under such a scheme of regulation.

### **Marketing.**

Mr. N. R. Sarkar in his presidential address at the last session of the Federation of Indian Chambers of Commerce and Industry has beautifully summed up the problem of marketing which has an important place in any plan for agricultural development. The main idea would be the quick disposal of the product and the peasant should get the maximum possible price. Poor knowledge of marketing and poor holding capacity are two handicaps for the peasant. Inadequacy of transport facilities add to the difficulty. Setting up of crops committees, organisation of marketing and spreading market information, as recommended by the Agriculture Commission would go a long way to remedy the first defect. Further warehouses will have to be opened where the farmer may deposit his produce and get a warehouse warrant by which he can raise necessary finance. This will help a great deal in steadyng the price of agricultural produce. But simultaneously the questions of specified grades of a particular commodity will have to be tackled in order to make the best use of the warehouses.

The Government of India's resolution based on the recommendations of the economic conference of April last clearly demonstrates the necessity of planned marketing in order to safe-

guard India's future in the face of intensified outside competition which is being felt as a result of modern scientific and economic developments in other countries.

Adverse freight policy of the Railway has been responsible up to this time for the inefficient marketing of our goods within our country. The Punjab wheat cannot be marketed in Calcutta in competition with Australian wheat. Railway freight from Lahore to Calcutta is much heavier than the steamer freight from Melbourne to Calcutta. The railway freight policy should be set in conformity with national economic interests. On the South African Railways all articles of home manufacture are carried at a lower rate than those of foreign manufacture. Unless a similar policy is adopted in India there is not much hope of marketing the produce of one province in another. Further, opening of museums in every district town could help in creating demand for the goods produced in various parts of the country. These would also provide a better source of information as regards the quality of particular commodities.

Profitable employment of the farmer during the idle days of off-season has great bearing on his economic life and also on his mental welfare. Subsidiary industries like dairy, fruit and poultry farming and mobility of agricultural labour should be encouraged.

Last but not the least is the question of rural indebtedness. No plan will be fully effective in India, which fails to tackle boldly this problem. Rates of interest in some cases are unbearably heavy and their payment is almost impossible. It reacts in various ways on agriculture, for instance, on productivity, health of the peasant and welfare of the live-stock. The whole talk of the prosperity of the farmer will be futile so long as this huge load remains unlifted. Various plans and policies have been suggested from time to time to solve the problem, but most of them only scratch the surface of the subject. Now the stage has reached when some bold and courageous measures are required. The hope of solving the problem by throwing a few lakhs of rupees in Co-

operative Societies is only a betrayal. Enactment of insolvency laws, composition of debts on either voluntary or compulsory basis according to different categories of peasants, establishment of land-mortgage banks, with necessary preliminary debts survey, can alone cope with it effectively. Simultaneously with the programme of redemption, due facilities of peasants' future credit requirement should be provided by establishing suitable banking institutions and co-operative societies.

The Government of India have, for this special work, appointed Mr. M. L. Darling, I.C.S., an officer of great experience of co-operative and agricultural credit in the Punjab and I am glad that they have realised the usefulness of planning. It is hoped that Government will associate with him; unofficial Indians in surveys which he has to make.

Various provincial Governments have from time to time formulated regulations against the heavy rural indebtedness. But these regulations did very little in reducing the burden of the peasant. The basic reason of such failure is that efforts are made half-heartedly. If the Punjab Government passed Land Alienation Act in order to restrict credit, at the same time they did very little to educate the masses to understand the evils of such debt and how they could avoid it. The small landholders gained very little and big landholders went on adding to their holdings. The result is that the debt went on accumulating on account of its use in unproductive businesses of the peasant. Further rural indebtedness bills in the Punjab and U.P. are standing living examples of the problem. Vested interests are creeping in and the bills may fail to achieve the object of relief to the poor peasantry. The result will be that the farmer will be relieved of the clutches of the money-lenders only to fall a prey to the big land-lords. Very little attention is being paid to sufficient provision of credit. Heavy land revenue even in the days of depression has pressed hard on the farmer, but our local Governments are very slow in taking the matter in hand at proper time. The injustice of such heavy land revenue policy will be revealed if we take a concrete case of

income and expenditure of a certain farm. This is taken from one of the publications of the Economic Enquiry Board of the Punjab (Farm Accounts).

		Total.	Expenditure per acre.
		Rs. a. p.	Rs. a. p.
Land revenue	...	81 13 0	3 8 9
Upkeep of bullock	...	248 0 0	10 6 0
Seed	...	61 7 9	2 9 2
Kamins	...	33 2 6	1 6 3
Harvesting	...	22 10 11	0 15 2
Labour	...	70 9 0	2 15 3
Persian wheels	...	44 11 2	1 13 11
Implement	...	21 14 5	0 14 8
		<hr/>	<hr/>
		584 4 9	24 7 2

	Summary	Acre	Kanal	Marla
Area held was		23	7	4

	Total.	Per acre.
	Rs. a. p.	Rs. a. p.
Gross income	... 1,500 13 10	44 2 10
Expenditure	... 584 4 9	24 7 2
Net income	... 471 9 1	19 11 8

If we add land revenue to net income we get an income of Rs. 533-3-1 taxed at 81-13-0 which is far heavier than what an ordinary business man pays. The injustice will be more apparent

when we look at the very small average holding of the farmer. Land revenue being a tax and not a rent should be based absolutely on economic grounds. Every scheme would be a failure unless such discrepancies are removed from the path of success.

### **Industry.**

India is still, as compared with industrially advanced countries very backward and the fact can be gauged by the following figures. The number of industrial establishments in India for which statistics are maintained was 8,148 in the year 1930, while industrial establishments in the United Kingdoms in 1928 numbered 107,500 and the population of the United Kingdom is only 13 per cent that of India. In the United States of America with a population 35 per cent that of India there were 210,959 industrial establishments in 1929. In Canada, the population is 3 per cent that of India and in 1929 she had 23,597 industrial establishments. The comparisons with Japan, Sweden, Germany and France are equally telling.

From the above analysis it will be seen that India is far behind other countries. Western countries and Japan in the last fifty years have been concentrating on industries and trade whereas Indians have been becoming more and more overwhelmingly rural. The great canals established in the Punjab, U.P., Sind and other provinces support my contention. Attempts were made to make India a granary in order to provide raw products to the industrial organisations of the Empire.

With the present tariff walls created by different countries of the world and with the scientific production of cheap raw materials by Australia, Argentine and other countries the export of raw materials from India has greatly decreased and now the eyes of all are turned towards the development of Indian industries. Recently the sugar industry was granted protection against Java and a very large number of factories were started in the length and breadth of the country. This industry has given employment to about 1,500 graduates in chemistry and mechanical engineering plus to about

150,000 workers in these days of unemployment. This industry has produced about 63 lakhs of tons of sugar worth about rupees six crores which gives employment to half a million agriculturists.

It will be observed that our lack of economic foresight and absence of an industrial plan are only apparent when we look towards our huge internal market and immense tonnage of raw material exported only to be imported as manufactured goods. So it has become necessary in these circumstances to have a complete programme of industrial development instead of assisting individual industries as and when they require such assistance.

First of all we shall have to survey in detail the origin, history and development of all the industries established in India in the last half century as was done by the Holland Commission. It will include, cotton, jute, iron and steel, chemicals, paper, glass, cement, sugar, soap, etc. Such close study will reveal the basic problem on which the future economic policy will be based.

Up to the present our efforts for industrial development have been made in a very haphazard manner. We advance in one direction but recede in another. Take for example the case of cotton industry; the present productive capacity of our mill is 3,600 million yards, just equal to our present requirement. But while about 60 per cent of our mills are closed for want of market throwing thousands out of employment we enter into agreement with Japan and Lancashire to purchase cloth from them and sell the raw cotton which under a planned system it should be possible to consume in India itself. Again the development of the jute industry is not free from criticism. Some say that the position in this industry is improving, but if the conditions be examined carefully, the hollowness of such a view is revealed. We are at present working with 15 per cent of our looms and only four days in a week thus curtailing production by 40 per cent. Thousands have been thrown out of employment and wages have been reduced. While this is the condition of old mills, producing only 60 per cent of their capacity, their agreement to work on restricted scale is bringing into existence new mills which are multiplying in

number. If demand from foreign countries does not increase the existing trade will have to be shared by the existing, old and new mills which would mean curtailment of production by 50 per cent instead of 40 per cent. This is mere waste of capital and energy. Money is blocked in the industry which is already idle to the extent of 40 per cent. Under planned system capital will be directed into channels where it is urgently required and not allowed to be wasted.

Our aim is to manufacture within the country everything that it is possible to make on reasonable economic basis and for which we have sufficient natural facilities.

In our attempt to develop industries we would guard against damages of duplication and over-production. For this purpose closer inter-provincial co-operation would do much towards a policy of sound industrial development. The aim should be to afford to every province the fullest opportunities and to develop industries without danger of internal competition. For this purpose a complete survey of our home market, *i.e.*, a clear analysis of demand for every kind of goods in India will have to be made. After deciding what to produce, basic industries like iron and steel and chemicals will require our first attention in any industrial plan. In the past our attempts have been to raise super-structure before completing the foundation. In order to complete the industrial plan, the survey of raw material sources would come next. We have to consider the quantity of the material produced and the suitability of the quality.

Power problems of Indian industries are likely to assume prominence in future. India's power resources have not yet been completely surveyed but from available information it looks that India has not got so extensive and limitless resources. The whole Indo-Gangetic Valley stretching at the foot of the Himalayas can be provided by water power if such resources are thoroughly surveyed. Great attempts have already been made towards this side. As Hydro-Electric Schemes would involve huge expenditure private capital cannot be attracted. The Punjab Hydro-Electric

Scheme in the North, the Cavery in the South and the Tata in the West of India are the great power schemes to provide power for the development of industries at cheap rates. Oil resources within India should be exploited strictly in national interest and foreign control should always be restricted. Its importance would be revealed from the recent experience of the other countries like Persia. Punjab has restricted oil supply but if more surveys are made there may be more oil deposits.

### **Capital.**

The main criticism is directed towards the question of money as to wherefrom the money required for such national reforms is going to come. But a bit of thinking will remove all doubts on this score. Those people think of money only in terms of gold or silver. But even so, there is no dearth of it in India. The money (Rs. 53 crores lying in gold standard reserve) could be used for the economic uplift of the country. Similarly if the paper currency reserve be revalued at the present price of gold it would show high profits. But if by money is meant "real" money, *i.e.*, labour, we are probably the richest nation of the world. Up to this time we have not been able to exploit this source of our wealth. The question of capital should not frighten us. Money spent will flow back to the Government Exchequer. This secret has been realised by the Governments of various countries. Germany, America and some other countries have undertaken public works schemes in order to create more employment. Mr. Keynes, an eminent economist, also suggests expenditure on public works as the most effective means of bringing about recovery. The problem in India is only of mobilising the idle labour and making it produce things for those who want it. The problem is a simple one but it requires bold efforts and a bold policy and determination to succeed on the part of the Government and the people.

India does not want foreign capital for the development of national industries. We have experience of Swedish Cartel and we know how our match industry is controlled by this cartel which

is working under the name of the Western India Match Company Ltd., Bombay.

#### Trade.

India unlike Great Britain and Japan but like U.S.A. has got a much bigger internal trade than external. Therefore greater attention will have to be given to our internal trade. In the past very little attention has been paid to the encouragement of our internal trade. This is perhaps due to the fact that British Government in India and British merchants were mainly interested in our foreign trade. The lack of an internal trade policy has produced curious economic maladjustments. We import the same commodity as we export, like Australian wheat imported at Calcutta but exported from Karachi. Similar is the case with coal which is imported in Bombay from South Africa.

The Railway freight policy which is based upon our foreign trade is responsible for many paradoxes. Inadequate financing facilities are another handicap. The number of banking institutions is yet too small. Our internal trade can grow to the fullest extent only when more banking facilities for mobility of money to finance internal trade are provided.

Our internal markets will have to be exploited with our rapid industrial development. Happily we have got in our country excellent opportunities of exchanging goods; jute, cotton, oil seeds, wheat and tea are all grown in fairly well defined separate regions. Similar is the case with cotton weaving, cement and iron and steel industries.

#### External Trade.

While we are keen to develop our internal trade, external trade should not be hampered. As a debtor country, India requires a constant favourable balance of trade in order to meet her foreign obligations.

The prospects of our export trade have been becoming gloomy more and more in recent few years. Commodities like oil seeds,

hides and skins, rice and manganese meet severe competition. Jute is being threatened by substitutes. Cotton manufactures have been wiped off by Japanese manufactures. Discriminating tariffs imposed by different Governments are affecting jute manufacture. By levying duty on Belgian structural steel we have recently eliminated another market of our raw produce. In fact our trade is now being limited to a very few customers.

Under such circumstances planned development of our foreign trade is of great importance. The present Department of Commercial Intelligence only collects the figures. But now we want a Board of Trade which will not only watch the tendency of the trade as revealed by the figures but will also take necessary steps in the national interest. As axillary to this plan Trade Commissioners should be appointed in the Far East, Africa and America. Those Trade Commissioners must have sound knowledge of finances and exchange so that they may not sleep over such problems as recently the Trade Commissioner at Hamburg has done while dealing with the German Exchange question.

### **Transport.**

The Railways though developed to a very small extent as compared with the area of the country, form the most important means of transport in India. No doubt road-transport has been also becoming important for the last few years and railways are facing new problems of rail-road competition. Railway interests in which such a huge amount of national capital is invested shall have to be guarded. But our authorities seem to have been very slow in action. Nothing has been done as yet over the recommendations of Mitchell-Kirkness Report or Rail-Road Conference. Indianisation in higher appointments of railways is at a snail's speed and thus an acute problem is being created for the employment of educated youths of India. The proposed Statutory Railway Board for the administration of the Indian Railways should not have discriminatory policies prejudicial to national interests. It is

expected that this Board shall be formed by Indian Legislature which should guide in the general policy keeping in view the national economic development and should not interfere in its day-to-day administration except when it is found essential in national interests.

Our inland waterways are not of less importance especially for the carriage of the bulky raw materials and grains in the Punjab and Bengal. Our coastal transport requires serious consideration in view of foreign domination. Reservation of coastal trade is a live issue of great economic consequence. Shipping occupies an eminent place in any country's national economy. We can never enjoy freedom and certainty of movement of our cargo in time of emergency unless we have our own national marine service. In the Punjab the Communication Board has done some good work but much is yet to be accomplished.

#### **Currency, Exchange and Banking.**

Currency and Exchange policy forms a quite different and separate subject. Enormous literature has already been published to expose the wrong exchange policy of the Government. Commissions and committees have been appointed but the most important recommendations have always been ignored.

A brief survey of the last decade reveals the deplorable state of our currency and exchange system. Gold standard has never been acceptable to our authorities even though recommended by expert committees. High exchange ratio has always governed the monetary outlook of our Government. In 1921-22 ridiculous experiments to maintain the ratio at 2s. quite unjustified by natural conditions brought a heavy loss of about Rs. 55 crores to our treasury. Again in 1926 attempts were made to keep it at 1s. 6d. by heavy borrowing and deflation without caring a bit as to how our trade would be penalised. But for England's going off the Gold Standard God knows where we would have drifted to. Further when opportunity came our rupee was linked to 1s. 6d. sterling and so we got the minimum of benefit. How countries

like Japan benefitted by such turn of events, and much of her present selling cheap in the market is due to adjustment of exchange. India needs a planned and elastic monetary system. Unless this is done no plan for agricultural and industrial development can be successful. With the establishment of such planned monetary system our prices will be regulated and trade and industry will be sure of adequate finances at reasonable rates. In future in evolving a suitable monetary standard for India, we should aim at a comparative stability of our internal price level, and a fair measure of elasticity should be one of the essential characteristics in order to meet the seasonal variations in our economic conditions in this country.

In order to ensure efficient functioning of our monetary standard, our whole banking system must be reorganised. A central banking institution may be established immediately with effective control over banking and currency policy.

### **Conclusion.**

In conclusion I am glad to know that the Government of India realising the necessity of planning, convened the Conference of April last and though the plan adopted by the Government is not comprehensive, the step to some extent is in right direction. Provincial Governments though autonomous to a certain extent, can do very little in the matter as without a co-ordinating link to adjust the requirements of each provincial group by a central authority no tangible improvement can be made to achieve the object. The control of Currency, Taxation and Railway policies are vested in the Central Government and therefore the central authority must supervise the progress in each province. I have tried to place my views as briefly as possible purely from the economic point of view. The most encouraging point is that both the Government and the people are beginning to recognise the magnitude of the task before us. A mere recognition of the magnitude of the task is to my mind half way towards victory in due course.

“ Never to ask for an easy task,  
    Nor a prize for winning through,  
But just to pray for a better way  
    And a better will to do.

Never to sigh for a sunny sky,  
    Nor mourn the gloom in vain,  
But to strain your strength the day’s whole length  
    In spite of the mist and rain.

Never to look for a trout-full brook,  
    Nor ask for an easy shot,  
But just for sand, a steady hand  
    And an eye that falters not.

The finest tools, in the hands of fools  
    Are nearly useless things;  
But the poorest kind, with a will behind,  
    May fashion the thrones of kings.”

## A PLAN FOR ECONOMIC RECOVERY

BY

DR. P. J. THOMAS,  
*Professor Madras University.*

[In this paper, I have shown that the breakdown of purchasing power, which is the most disquieting factor in the present economic situation, can be remedied by a suitable programme of public works, which will not only increase employment and purchasing power, but will also provide the country with a better economic equipment. This is one of the most important aspects of economic planning to-day. A more comprehensive type of planning may not be practicable in the circumstances of India, but no serious objection can be urged against a cautious policy of loan expenditure on urgently needed works of public utility.]

1. Perhaps the most disquieting feature of India's economic position to-day is *the breakdown of purchasing power* which has resulted from the heavy slump in the price of primary products since 1929. While the prices of manufactured goods have fallen only about 27 per cent on an average, those of primary products fell more than 50 per cent, and 'fixed' charges—land revenue, rent and interest payments—remain nearly where they were in 1929. The diminution of purchasing power in the country can be gauged by the fact that while the value of the principal crops came to Rs. 1,018 crores in 1929, it was only Rs. 534 crores (or 52.5 per cent) in 1933. The prices of commodities that agriculturists sell slumped by about 50 per cent, but the prices of many things which they buy fell only 20 to 30 per cent. In result:—(i) consumption has slackened in many lines; e.g., the annual *per capita* consumption of white sugar, which was 7.7 lbs. for 5 years before 1930, fell to 5.8 lbs. in 1932-33—a feature which sugar manufacturers must take into account; (ii) agricultural production has diminished in several lines, thus increasing rural unemployment; (iii) the standard of living, which had been steadily rising before

the depression, has since fallen; (iv) the earnings of railways, commercial firms, banks and of all business have diminished; and (v) the public revenue under customs, excise, stamps, registration fees, etc., have fallen, to the great detriment of the central, provincial and local authorities. The whole phenomenon may be described as a vicious downward spiral. When prices fell, incomes diminished, and with diminished incomes, the buying power has contracted, and business got slackened. Thus the public fisc as well as the private purse came to be affected seriously.

2. Government's efforts, while effective in maintaining its own financial position, have not been equally effective in maintaining the country's purchasing power. In spite of dwindling business and falling revenues, the Government of India has balanced its budget, partly by retrenchment and partly by increased taxation, and largely by the copious outflow of gold that came as a godsend. India's dues in England have been punctually met, the burden of her debt has been reduced and the balance of trade in favour of India, which had become slender at the end of 1932, has again become substantial. Consequently, India's credit to-day stands high among the nations of the world, public borrowing is easy and Government is now in a position to boldly launch forth the long-expected Reserve Bank. Government has also taken steps to safeguard India's trade, both external and internal, and to this the two trade agreements, the Crop-Planning Conference and the marketing scheme bear ample testimony. In addition, several provincial governments have made revenue remissions and some have granted relief by debt conciliation and other measures.

But it is well to remember that Government's budget has been balanced, by unbalancing private budgets to some extent. The scheme of retrenchment, whether by the central government or by the provincial governments, was carried out at the expense of employment and purchasing power. Before 1929, a large constructional activity was going on all over the country. There was a large capital programme on the railways; the provincial

governments were engaged on an active policy of road-making and irrigation works. Thus Government, which was already the largest single employer of labour in the country, took upon itself a great responsibility. But since 1930, these public works programmes were drastically curtailed and that has seriously affected the purchasing power of the country.

For the three years ending 1929-30, the total works expenditure on Indian railways amounted to Rs. 124 crores or Rs. 41 crores annually, but for the last three financial years (1931-32 to 1933-34) the total has fallen to Rs. 27 crores, or Rs. 9 crores annually. If we take capital expenditure alone, the fall was from Rs. 101 crores in the first period to Rs. 6 $\frac{3}{4}$  crores in the second. The expenditure on new constructions in the last two financial years was only Rs. 57 lakhs and Rs. 22 lakhs respectively. This curtailment may be partly due to a wise change of policy, but we are here considering only its results on employment. The total provincial expenditure on civil works which amounted to Rs. 9.3 crores in 1928-29 fell to Rs. 5.4 crores in 1932-33—a fall of 41 per cent; and the expenditure not charged to revenue (excluding Burma) fell from Rs. 97 lakhs to Rs. 6 lakhs—a fall of 94 per cent. At the same time, local authorities also severely restricted their outlay on works. Taking only the total central and provincial expenditure on public works, the fall may be seen from the following statement:—

	Total works expenditure on railway. (Rs. lakhs)	Provincial Civil Works. (Rs. lakhs)	Total. (Rs. lakhs)
1928-29	...	38.35	48.58
1932-33	...	6.42	12.00
Percentage decline.	83%	46%	75%

We have not got ample statistical data for accurately measuring the resultant fall in employment and purchasing power, but some general idea may be formed from the fact that in the case of most works 50 to 70 per cent goes directly to labour and even the rest goes indirectly to labour, seeing that the stores are increasingly purchased within India.

We must remember that such a severe cut by Government coincided with the disbanding and repatriation of labourers from Malaya and Ceylon and the closing of many of the tea, and most of the rubber, plantations within this country. Not only did the large inflow of remittances from Ceylon and Malaya cease since 1930, but the labourers who hitherto made those remittances came back home to aggravate the unemployment situation in the country. The cumulative result of all this was the setting in motion of a vicious downward spiral with all its attendant consequences.

3. How to convert the downward spiral into an upward spiral of economic recovery? Unfortunately, the critics of Government, whether politicians or economists, have concentrated their attention on exchange depreciation, but currency manipulations are either risky or ineffective in the present circumstances, particularly of India. As Keynes naively puts it: "You cannot get fat by buying a larger belt." An increase of currency can only be effective if it is accompanied by an increase of spending power in the pockets of the people, and spending power can only increase by more extended employment. The demand for goods must be sustained and business activity must be revived, and this alone will set in motion an upward spiral. Such activity cannot come by private initiative in times like the present; the public authority must give the start, and then private agency will follow up. This has been recognized in most European countries, and public works expenditure is no longer a side-show but has become the central feature of their economic policy. Orthodox canons of public expenditure have been abandoned, and in several countries, loans have been raised for carrying out capital works with a view to maintaining purchasing power.

The scheme of public expenditure now put forward is materially different from the relief works which used to be urged by some for 'making work.' The aim now is to time the capital undertakings of public authorities in such a manner as to concentrate them in the trough of the depression and to curtail

activity when business improves. Thereby, purchasing power can be injected and business activity revived in times of depression. The works would directly employ many persons and then more will be employed when industry and trade expand, as they are bound to, by the growing demand for consumption goods.

The secondary employment resulting from public works has been mathematically analysed by Keynes, Kahn, and other writers.<sup>1</sup> According to Keynes, for every two men employed on public works, at least one man will be employed on secondary employment. Kahn estimates the ratio of primary to secondary employment in the least favourable case at 1:0.67, and similar results are reported by the German Statistisches Reichsamt. The most favourable results are obtained from works in the case of which wages contribute a high proportion of costs, and for which raw material comes mostly from within the country. Road-making, and earthworks of all kinds are therefore greatly helpful in the reflation of economic activity.

4. In the case of India, public works expenditure is particularly desirable, feasible and beneficial, at the present juncture.

(a) The chief objection raised in England and certain other Western countries against public expenditure is that the opportunities for fresh development of capital works are limited. Large sums were spent in the last decade for increasing general amenities, and more cannot be spent in a productive manner. Obviously, this objection cannot be urged about any part of India. There is in this country infinite room for carrying out works, not only for providing general amenities, but for supplying the most essential human needs—drinking water, light, housing, and drainage. The country is also in need of roads, bridges, irrigation works of all kinds, reclamation of waste lands and water-logged areas, construction of electric plant, and erection of earth works for protection against floods. Most of these works are directly remunerative, and others indirectly. Such works will not only

1. Keynes—*Means to Prosperity*; R. F. Kahn, in the *Economic Journal* (June 1931); Mitnitsky, in the *International Labour Review* (October 1934).

increase purchasing power, and give a stimulus to economic activity, but will also protect the country from debt, disease and drought. They will also increase public revenues and improve the economic equipment of the country. More village roads are needed for efficient marketing and cheaper power supply will expand industrial facilities. Better housing, cleaner drinking water and better drainage are required in villages as well as in towns, and these will lead not only to greater physical comfort but to greater economic efficiency.

(b) There cannot be a more opportune time than the present for undertaking such works of public utility. We are apparently at the bottom of the depression, and this is just the time when loan expenditure is most effective. Government's credit stands high, and capital can be had to-day at unusually favourable rates. India can now borrow on terms more favourable than those on which Germany, Japan, and even France are able to borrow. Labour is also plentiful and cheap. There are large numbers of unemployed and under-employed labourers eagerly looking for work.

(c) When the spending power of labourers is increased, they will buy more of foodstuffs and clothes and all kinds of consumable commodities. Judging from the agricultural family budgets collected in various parts of India, about 60 to 70 per cent of the total expenditure of the common people is on foodstuffs, and nearly 95 per cent of the goods they consume are from within the country. In this respect, conditions are different in the more advanced Western countries, which depend more largely on imported foodstuffs and raw material. A larger amount spent on wages in England may bring about a greater demand for goods that are rather luxuries, while in India, with its large numbers of underfed persons, a bigger wage bill will expand the demand for necessities. The law of equi-marginal returns demands that a country which consumes hardly 15 yards of cotton cloth (including kadar) and 15 lbs. of sugar (including gur) *per capita* per annum will have to largely increase its consumption of such goods

before thinking of silks and diamonds. Therefore, the results of increased expenditure on public works in India will be (i) a greater demand for foodstuffs and clothing, (ii) a gentle upward trend of prices, (iii) greater employment in agriculture and industries, (iv) expansion of trade and (v) increase of public revenues, central, provincial and local. In this expansion, not only manual workers, but intellectual workers will also find increased employment. I have estimated (see Appendix) that for four men newly employed on public works, at least three and perhaps four may be absorbed in secondary employment. Therefore, the secondary employment from public works must be larger in the case of India.

5. Public Works have already served such a purpose in the past, even in this country. A hundred years ago, 1825—50, there was a prolonged depression in Southern and Western India; prices fell rapidly, agriculturists suffered, weavers lost their occupation and public revenues diminished. After much hesitation, the Government of Madras launched on schemes of irrigation works and road-making, and as a result money circulated in the country, prices gently rose after 1850, public revenues improved and prosperity revived. Sir Arthur Cotton was greatly instrumental in carrying out this forward policy, and in 1850, the Madras Public Works Commissioners showed in their report how 'a vast stimulus' was given 'to industry and production by the employment of labour and circulation of capital' in poverty stricken districts. Subsequently, railways and factories were constructed, and tea plantations were opened and much money flowed into the country. But the initial stimulus came from the public works policy of Government. Later, the same policy was adapted to famine relief, and became the core of the famine code which came into operation after 1880. This was how Government in India planned long before 'planning' was heard of.<sup>2</sup>

2. See the paper on *Economic Depression in the Madras Presidency* (1830-50) read at the last year's Conference, and the forthcoming work on the subject.

**6. The Scheme must be carefully devised.**

Public works in the past have not always been used to the greatest advantage of the country. Too much of the money went into the pockets of contractors and other middlemen, and too little into those of labourers, with the result that the effect on purchasing power has not been sufficiently great. An effort must therefore be made to direct and control such activities. An expert committee must be appointed in every province (with the Finance Member as Chairman) for scrutinizing schemes sent up by local authorities, and for watching wage-schedules and conditions of labour; provision must also be made for a periodical survey of economic results by competent persons.

In selecting schemes, preference must be given to works that require a maximum of human labour and minimum of capital goods. It is not enough to have a few large works; we must rather have a large number of small works scattered about the country, especially in 'depressed' rural areas where purchasing power is parched up. Minor works like wells, tanks, canals and village roads will put some money into the pockets of the agricultural labourers in upcountry villages, and there is extensive room for the expansion of their consuming capacity.

**7. Some difficulties in the way.**

The question of increasing public works expenditure was discussed at the Provincial Economic Conference at Delhi last April, and the Government of India has already offered to lend to the provincial governments for carrying out schemes of public works. Particular attention is being paid to road development. In order to induce the provincial governments to launch on road-making schemes, a resolution was passed in the Legislative Assembly last March making provision for provincial grants from the Road Fund being utilized for the services of loans raised for the construction of new roads and for their maintenance. However, the provinces are slow in moving, and have their own doubts about the financial soundness of raising loans for road develop-

ment. Indeed roads will increase revenue collections, but the central revenues will benefit at least as much as provincial revenues. Is it not fair then, ask some, that the central government also share in the financial burden of road development? The question will therefore have to be more seriously faced by both governments, and it is hoped that the ensuing Road Congress will result in the satisfactory settlement of this important question.

#### 8. A Stable Recovery.

Each province must now plan and carry out a programme of public works, ranging over a period of five to ten years. The immediate expenditure must be the largest, but with improving economic conditions private agencies will revive and the State's outlay may be diminished. Schemes of commodity restriction and currency manipulations are of doubtful value and, as experience elsewhere has shown, it is extremely difficult to control the reactions of such policies; but the carrying out of public works which are directly or indirectly remunerative has no such serious risks. If public expenditure is to be effectively used for counter-acting booms and slumps, credit must be carefully controlled, and now that the foundations of our Reserve Bank have been firmly laid, we can boldly go ahead with a suitable programme of public works. Such a programme, if properly carried out, will not only improve the economic equipment of the country, but will set in motion an upward spiral, with gently rising prices, increasing employment and purchasing power, expanding trade and rising public revenues. Thus it will lead on to a stable economic recovery.

## APPENDIX

### THE EFFECTS OF PUBLIC WORKS ON EMPLOYMENT.

In the present circumstances of India, loan expenditure on public works may produce more beneficial repercussions on business activity here than in many other countries. It would be interesting, therefore, to apply to the conditions of India the formula enunciated by Mr. R. F. Kahn in his paper on "Home Investment and Unemployment" (*Economic Journal*, 1931, p. 173.)

According to Mr. Kahn, the increased employment both direct and indirect, that is required in connection with the increased investment is called 'primary employment'; and the total employment that is set up in the production of consumption goods is called 'secondary' employment. To give the maximum effect to this scheme, it is assumed that this expenditure is really a new expenditure, and that the funds are not raised by taxation, but by an expansion of credit or loans. The works undertaken do not include any work for the production of consumption goods, and nearly 70 per cent. of the money goes directly in the form of wages to labourers. In countries like England, the increased demand resulting thereby may raise real wages and prices, both of which go to curtail secondary employment, but in the circumstances of India, the response of prices and wages to demand is necessarily feebler, and therefore secondary employment will not be seriously curtailed. An important assumption that is made in arriving at the result is that the supply of consumption goods is perfectly elastic over the range that is in question. Starting with the above assumption the following formula has been arrived at :—

$$\text{If } K = \frac{M(W - P) + nP}{W + P + R}$$

the ratio of primary to secondary employment is  $1 : \frac{K}{1 - K}$

where  $m$  is the proportion of expenditure of the labourer from his increased income;

$n$  is the proportion of expenditure from the increased profits;

$W$  the wages of a labourer;

$P$  is the increase in profits associated with the employment of each additional man and

$R$  is the value of the increase in imports of raw materials and finished goods that accompanies the employment of each additional man.

$U$  is the expenditure already met by the unemployed man from the dole.

In India, we have no unemployment insurance fund and so the question of 'dole' as is applied in Western countries is absent here. But the word 'dole' has been given a more liberal interpretation by Mr. Kahn. "It includes", says he, "money received from local authorities, from charity, from borrowing, from his friends and relations or from his own accumulated savings." Before this new employment, the labourer was not living on air, but was depending on some form of 'dole'. Of course, he must have been underfed and underclothed. So we can safely assume that the money previously spent on consumption goods, ' $U$ ', is 20 to 25 per cent. of  $W$ . Therefore, a large part of the wages of the newly employed man will go to the purchase of absolute necessities. A portion of the wages goes for the repayment of debts, a little to savings and to other items,

and we can safely assume that 75 per cent. of the increased wages are spent on consumption goods. In the case of profits, only 30 per cent. may be spent on consumption goods, and the proportion of profits to wages is taken as 2 : 5. The only thing remaining is the increase of imports of foodstuffs and raw materials over exports. This is negligible in the case of India; because nearly 95 per cent. of the foodstuffs and finished goods consumed by the working classes, and most of the raw materials needed for industry are produced within India, and so this extra demand will not accelerate imports till a demand arises for new machinery. So we can take  $R=0$ . So the ratio of primary to secondary employment can be obtained by substituting the following values in the above equation :—

U	n	$\frac{P}{W}$	—	—	1 - k
$\frac{1}{5}W$	$\frac{3}{4}$	$\frac{3}{10}$	$\frac{2}{5}$	0	.51
$\frac{1}{4}W$	$\frac{3}{4}$	$\frac{3}{10}$	$\frac{2}{5}$	0	.49

From the two results given above we see that for addition of one man in the primary employment, there is an addition of one more man in the secondary employment. But another correction is necessary in the above result because it is assumed that the supply of consumption goods is perfectly elastic. In an agricultural country like India where 60 to 70 per cent. of the money is spent on foodstuffs, supply of consumption goods is not highly elastic. The elasticity may be higher in the case of some classes of goods and lower in other cases. But it must be remembered that we have already allowed for a reduction of 25 per cent. in the value of  $W$  on account of the expenditure on foodstuffs prior to employment. Therefore, for a fair estimate, we need not make more than 25 per cent. reduction in the secondary employment, on this account. It would be safe to estimate that the ratio of primary to secondary employment in India is between 4 : 3 and 4 : 4. That is, for four men newly employed on public works, not less than three and not more than four other men will be absorbed by secondary employment.



## THE EAST INDIA COMPANY AND THE SILK INDUSTRY (1800—1840)

BY

B. B. MUKERJI,

*Patna University.*

The East India Company was quite alive to the importance of the Silk Industry and made several attempts from time to time to develop it. In 1757 an expert named Wilding was sent to Cossimbazar to improve the quality of silk production. With a view to introduce better varieties of silk, silk worms were imported from China in 1771, but this worm did not thrive in Bengal. Between 1770 and 1775 various attempts were made to introduce the Italian method of reeling and the success of these measures was reflected in the great increase in the silk exports. Between 1776-1785 the imports of Bengal silk into England reached the average of 560,285 lbs. per year while the imports from Italy, Turkey and China totalled 282,304 lbs. per year. In 1800, 69 per cent of the Raw Silk imported by England came from Bengal. Captain Price, in his "Letters from a Free Merchant in Bengal to Warren Hastings" (1777) suggested "That all Rajahs, Zemindars and every kind and species of Officers under the Government, be prohibited in the most express terms, from exacting any kind of tax on the weavers and makers of silk or cotton cloth, silk winders or spinners of thread." The French Revolution and the Napoleonic Wars gave a great impetus to the exports of raw silk from Bengal. The exports rose in value from

£366,32 in 1793 to £640,644 in 1809-10. Exports of raw silk to England were as under:—

Year.	Average.
1790-05	468,000 lb.
1800-05	510,000 lb.
1810-15	621,000 lb.

The great success of Bengal Silk was reflected in the increase of exports from £29,984 in value in 1796 to £45,855 in value in 1801-02.

Silk rearing was mainly confined to the Central, and Northern Districts of Bengal Proper, the eastern portion of Behar and Assam. Three varieties of worms were cultivated:—Mulberry, Endi and Tassar. Mulberry silk was mainly of two species, the country-worm yielding four harvests, in November, January, March and June, while the other species, the Italian had one harvest. Mainly three varieties of mulberry trees were grown,—the dark purple, white, and the Indian mulberry. Assam produced wild silk called tassar. Mulberry cultivation was done on an extensive scale on the banks of the Mahananda and the Karotoya, the area on the banks of the former river extending over 4,000 bighas in the midst of mango, banyan and pepal trees. The plantations were surrounded by high banks of mud and good drainage was provided with a view to prevent waterlogging. Many rearers employed labourers to carry on the cultivation of the trees and they gave in return half the produce and met other expenses. Some merely sold the leaves and did not rear worms themselves. The people were so very poor that as soon as they received advances from the Residents for cocoons, they sold them though the profit of spinning was large. An acre or 3 bighas produced leaves worth Rs. 45 and 508 lbs. of cocoons worth Rs. 67-8-0. The old method of winding the silk from the cocoon by means of a small reel (Laya) fastened to a spindle was dis-

carded in favour of a larger reel (Gayi) moved by a winch after the Italian mode.

The East India Company had a monopoly of trade in silk, and the business was managed through the Commercial Residents of the Company. There were 12 Residencies in Bengal in 1800 at Radnagore, Horripaul, Saintipore, Cossimbazar, Beullah, Comercolly, Sardah, Jungypore, Mauldah, Rangpore, Sunnamukhie, and Gonatea. Besides these there were out-factories at a distance of 10 to 20 miles from each filature.

The cultivation of mulberry trees and the rearing of silk worms were done by ryots in their own villages. The Resident made advances to the rearers through the middlemen called Pykars and prices were settled subsequently to the delivery of the cocoon. Each Residency had a filature equipped with machinery on the Italian model, and the cocoon was reeled at these filatures. Silk made in the Gonatea filature was the best while that of the Bau-leah was the worst. Dealings with silk weavers were guided by Regulation XXXI of 1793. To prevent oppression of weavers, it was laid down that a weaver indebted to the Company would not be forced to "enter into fresh engagements on duty discharging such debts."<sup>1</sup> Weavers indebted to the Company must deliver cloth according to agreement and they were debarred from dealing with anyone else and on being detected of having broken this rule, they were liable to be prosecuted in the Dewany Adawlut. When any weaver failed to deliver by the stipulated time the cloth for which he had received advances, the Resident was authorised to place peons upon him in order to quicken his deliveries. Gomastahs employed in the Company's factories were liable to be prosecuted if guilty of changing the Company's cloth. The Resident was allowed to carry on private trade, but he "shall supply or ensure the Company's demand for goods before he provides any for himself." He was not allowed to take any commission from agents but merely dealt on his own stock as a merchant, nor was he

<sup>1</sup> *Vide*—Sutherland's Bengal Regulations Vol. I p. 129.

allowed to sell his stock in his Aurung or to send it to any foreign settlement. "He shall give the weavers the price for which they may choose to deal with him, without making the Company's prices a standard for his own trade."

The cocoons produced in the Purneah district were taken to the Company's factories at English Bazar and Jangipore. There were 125 houses of silk weavers in Purneah and the total number of looms was 200: while round about English Bazar 4,300 families were engaged in weaving.<sup>2</sup> Raw silk of the value of Rs. 7,43,000 was grown on the banks of the Mahananda in the Purneah and Dinajpur districts in 1810.

In Behar proper, Tassar Silk or Tassar mixed with cotton used to be woven mainly for local consumption. In the Patna district, the principal centres of this industry were at Phatuha, Gya and Nawadah. Four varieties of cloth were made:—  
 (1) Baunsa, made of tassar and cotton warp with cotton woof. Size— $18 \times 2\frac{1}{7}$  cubits, (2) Maghaiya, used as women's wrapper, made of Tassar warp and woof of Tassar mixed with cotton. Size 10 cubits  $\times 1\frac{4}{7}$  cubits, (3) Lungi. Size 13 cubits  $\times 1\frac{6}{7}$  cubits, (4) Sela, entirely made of Tassar.

Bhagalpur was another important centre of silk weaving. Tassar silk worm was reared on the Asan tree which grew in abundance in the area between the Chandan river and the Rajmahal hills. The worms were reared by people of all castes, but "women, are entirely excluded from the rearing work as totally impure; nor are they allowed to approach the place. The breeders eat sparingly once a day, of rice cleaned without boiling and seasoned only with vegetables. They are considered also to preserve their purity by never employing the washermen nor barbers."<sup>3</sup> From these cocoons, three successive broods were reared, but those reared from the wild cocoons (Dhaba) gave the best silk, while the others, the Sarihan, Jarhan and Langga gradually degenerat-

<sup>2</sup> An Account of the District of Purnea in 1809—10 by Francis Buchanan, edited by V. H. Jackson p. 541.

<sup>3</sup> *Vide Martin—Eastern India Vol. I.*

ed. As at Patna, Bhagalpur weavers rarely wove pure Tassar silk. Out of 3275 looms in the district in 1810 as many as 3,000 were in the town. The following varieties of cloth were made:—

- (1) Duriyas, made of mixed cotton and tassar warp and cotton woof. Size 22 cubits  $\times$  1½ cubits.
- (2) Namunah made of cotton warp and tassar woof. Size 20 cubits  $\times$  1¾ cubits.
- (3) Chaharkhana. Size—18 cubits  $\times$   $\frac{7}{8}$  cubits.
- (4) Baftahs were of uniform colour and were dyed after weaving. The warp was of pure tassar and woof of pure cotton.
- (5) Khariasri. Size—12 cubits  $\times$  2 cubits.

The Baftah was made solely for export and the Commercial Resident of Maldah made heavy purchases of Baftahs and Namunahs, while annually about one lakh rupees worth of Duriyas and Namunahs were exported by Mughal traders to the North Western Provinces of India.

Cloth made in the Dinajpur district was of mixed cloth and silk and it was called Maldehi. The yarn was dyed before it was woven, the dyes used being Lac, Turmeric, Safflower, Monjista, Moski, Palasbud and Pandukhi (of lilac colour). Two varieties of this fabric were in demand:—(1) Elachi, in which both sides of the cloth were alike, (2) Musree being as glossy as satin and one side being different from the other. Other varieties were Golbudun (striped) and Katar (spotted). The pieces made solely for the Company for export to England were 30 cubits long and 2 cubits wide and those made for local consumption were 18 cubits in length. The weaving of mixed cotton and silk gradually declined in Maldah owing to greater demand for pure silk. The weaving of pure silk was introduced by Henchman, Commercial Resident at English Bazar and within a short time as many as

200 families specialised in this at Maldah. These weavers got higher wages, the income per month being Rs.  $3\frac{1}{2}$  to Rs. 5.

The agitation against the continuance of the monopoly in the silk trade at last bore fruit as in 1814, the general monopoly in trade which the East India Company had long enjoyed was given up. The opening up of the trade in silk allowed ample scope for competition by private merchants, both European and Indian. A general fall in prices was inevitable but the fall in the price of raw silk was not in proportion to the fall in the price of other commodities in which also free trade had been allowed.

	1793	1815	Increase or Decrease percentage	1831	Increase or Decrease percentage
Raw Silk per lb.	21 s.	18s. 1d.	13	13s. $7\frac{1}{2}$ d.	24
Sugar per cwt	66s. 6d.	49s. 1d.	26	26s. 2d.	46

This indicates that private competition was not effective at first though in the long run the sales effected by private merchants gradually rose:—

Value of sales of Raw Silk (£000)

Year,	East India Company	Private merchants
1815	298	172
1818	1,000	525
1821	722	226
1824	842	317
1827	906	415
1830	778	408
1832	584	483

Though for a long time private merchants were trying to break in through the monopoly of the Company, yet due to various

causes they were unable to do so. Armenian merchants had established themselves at Maldah and at various places but they handled a very insignificant portion of the trade in woven goods. Several European firms had started small factories at different places but the greatest amount of success had been attained by Watson of Faridpore. He was the first to introduce winding by steam power in Bengal and this was taken up by the Company later on. He had started filatures in Beauleah, Sardah and Commercoly and the quality of his silk was much superior to the Company silk but he had to close down many of his filatures owing to the competition of the Company. In 1823 Messrs. Palmer & Co., deputed a European to purchase silk and to start a small factory in Radnagore. "His factory was forcibly entered into by the Peons belonging to the Company who cut the silk from the reels and threatened to destroy it by fire."<sup>1</sup> Mr. Gouger had attempted to start filatures, but he had also to give it up. In spite of this, the monopoly had been broken through in Beauleah, Horripal, Radnagore and Cossimbazar areas.

The Company's purchases were on a very large scale, being in

1814	...	9,619	mds.
1816	...	5,063	„
1818	...	10,053	„
1820	...	10,815	„
1822	...	11,323	„
1824	...	8,745	„
1826	...	12,010	„

and owing to these heavy investments, the price had risen also from 455 sicca rupees per maund in 1814 to 612 sicca rupees in

<sup>1</sup> *Vide*—Evidence of John Saunders, before the Select Committee of the House of Commons on East India Affairs, 1831.

1825, making it difficult for small scale purchasers to make any profits. Besides this the Company did not fix the price to be paid to rearers until the silk was reeled off and the private trader was also compelled to make his purchases dependent on the Company's rates, thereby committing himself to a price which the market might not warrant. This ruined many private traders. The very basis on which prices were fixed gave the private trader no chance. The head of each factory previous to the (bund) reeling season sent out a circular to the other Residents of his neighbourhood proposing a rate and this was settled after consultation among them. The Residents were paid a commission at the rate of  $2\frac{1}{2}$  per cent on their purchases and this was a great inducement for them to increase their purchases even in the face of rising prices.

The provisions of Regulation XXXI of 1793 also stood in the way of the development of private trade, by enjoining that those weavers who had taken advances from the Company could not give to any other person "the labour or produce engaged to the Company." To prevent weavers possessing more than one loom from employing some of them for supplying goods to private traders, it was laid down that these weavers would be subject to "a penalty of 35 per cent on the stipulated price of every cloth that they may fail to deliver." Any private trader who had purchased from "the weavers in the Company's employ by the offer of ready money or cloths really wrought for the Company and with their advances knowing such cloths to be the right of the Company" was liable to be sued for damages in the Dewany Adawlut. If a private merchant sued any weaver who was in the employ of the Company at the time he made the agreement with him, the merchant would get a decree "with a saving to the Company of their claims on such weaver."

In a memorial submitted to the Court of Directors on 30th June, 1825 the Silk Merchants of London protested against this Regulation and pressed for an early repeal of it. Just at this time, the Company was considering the desirability of effecting

the necessary improvement in their system of purchases. It was noticed that the price of silk offered at the factories was steadily rising even though the selling rates were going down. On closer enquiry it was found that the main cause of high prices was competition among the Commercial Residents. Mr. Bell, an officer of the Calcutta Customs House in the course of a Review of the External Commerce of Bengal 1824—1829 commented on the tendency of the Commercial Residents to pay high prices for silk and to make heavy purchases as it brought them higher commission. He further suggested the “farming out their filatures to private enterprise when the Company might purchase the produce in the Calcutta Bazar at one half of what it now costs them and would then constitute a solid medium of remittances to Europe whilst it now forms but a hazardous speculation.” Besides this, the Residents were not experts as they were men transferred in course of service from other departments, e.g., a Postmaster General or a Salt Agent was transferred to the post of Commercial Resident. No wonder therefore that they were not good judges of silk and had to depend on their Clerks and Gomastahs.

In their letter dated 17th May, 1826 the Court of Directors directed that “the average annual cost per seer of silk of your investment must be reduced to what it was in 1815-16” and in the following year, the Board of Trade laid down rules by which the silk area was divided into circles. Five factories were included in the Maldah Circle, five in the Cossimbazar and four in the Radnagore Circle. There was to be uniformity in price within each Circle. In their letter to the Commercial Residents dated 27th April, 1827 the Board of Trade impressed upon the weavers “that they will seek in vain to elude the operation of the system now about to be established by carrying their cocoons away from their own factory for the sake of obtaining increased prices, because by so doing, they will inevitably meet with disappointment.” No Resident was allowed to pay a higher price for silk and cocoons than his neighbouring Resident within the same Circle. In 1831 the old practice of settling the price with the Pykars after all

the cocoons of the bund had been wound into silk was given up and it was ordered that the Company would pay before the bund commenced.

In 1829, Regulation IX removed some of the glaring defects of Regulation XXXI of 1793. Commercial Residents were brought under the jurisdiction of the Civil and Criminal Courts. Weavers and silk winders in the employ of the Commercial Residents were also made subject to the same process, civil and criminal, of the courts and public officers of the country as others living within the jurisdiction of those courts. The effect of the removal of these hindrances to private trade is reflected in the value of the exports of raw silk from Bengal in the years following. There was a slight decrease in the value of silk exported by the East India Company while the exports of private merchants increased by 400 per cent in value:

Year	Value of Raw Silk Exported	Sicca Rupees.
1827	(a) by the East India Company	78,63,080
	(b) by private merchants	3,15,592
1829	(a) by the East India Company	78,39,654
	(b) by private merchants	14.09.170

But these reforms had come too late in the day as in 1832 the East India Company gave up its direct trade in silk and it was made over to private agency.

It has been acknowledged that the East India Company treated the silk trade more as a mode of remittance to England than as a mercantile speculation.

Thomas Bracken in course of his evidence before the Select Committee of the House of Commons on East India Affairs

admitted that "They do not enter into it (silk trade) as a mercantile speculation but as a mode of remittance." This accounts for the unbusinesslike way in which this trade was carried on. As has been mentioned before, the Residents were not experts in their work, and they did not exercise any supervision over the industry in any stage with a view to improve it. Quantity rather than quality was their object. The Company also declared that "it had nothing to do with the production of silk beyond making advances to the cultivator or feeder of worms." The rigour with which they controlled the industry, which was in no sense conducive to its development, is evidenced by the fact that between 1809 and 1827 the fines realised from contractors weavers and rearers in Bengal amounted Rs. 1,15,846. In spite of the inherent defects in the system, raw silk proved to be a good investment. In the first quarter of the 19th Century the profits from the sale of raw silk in London exceeded those from indigo. We have seen that after 1815 owing to the removal of monopoly, there was a fall in the prices of almost all commodities of Indian origin but the fall in prices in the case of raw silk was only 13 per cent over the prices in 1793 while the price of sugar fell by 26 per cent. This indicated that the consumption of Indian silk was growing and there was a great opportunity for developing the Indian industry. In his Memorial to Lord Auckland, President of the Board of Trade on the improvement of silk industry, William Felkin urged that "When it is considered that with high prime cost and low sale value, Bengal silk is so profitable that the land rent has doubled, that the whole of the farmers' family can be employed in the rearing and that mulberry can be grown everywhere, no pains should be spared to develop this industry." But as a matter of fact the course of prices paid by the Factories went on increasing from Rs. 10-7-7 per seer in 1815 to Rs. 15-1-4 in 1825 while the London selling rates were going down and the Board of Trade had to issue a Circular in 1831 asking the Residents "to confine the rates paid for cocoons and silk to what will afford a reasonable profit and no more to the ryots who rear

the cocoons and to the persons who vend them." Though prices had risen in 10 years by 150 per cent, it is most unlikely that the rearer or the weaver was benefitted to a considerable extent, for even these high prices did not lead to an expansion of the industry as is shown by the following table:—

*Quantity of Indian production received at Calcutta from the interior of Bengal.*

		Raw Silk (cwt)	Factory of Silk per Bale	
				Rs.
1819	...	13,929	...	1046
1821	...	13,634	...	1178
1823	...	11,592	...	1162
1825	...	14,737	...	1207
1827	...	12,654	...	
1829	...	13,054	...	

The rent of mulberry land had gone up owing to the high prices of silk, but as the rearers did not share in the profits and as jute cultivation was becoming more and more remunerative, mulberry was being substituted in some areas, e.g., in Bogra District by jute cultivation and this restriction in supply too reacted on prices.

A European indigo planter had started a silk farm of 32 bighas in the Cossimbazar area. An estimate of cost prepared by him of raw silk shows that in 1829 the cost of production was Rs. 6-7-0 per seer while the purchase price at the Factories in that year was as high as Rs. 13-1-7. To the ryot with his small scale-farming the cost would be perhaps a little higher, yet the margin was certainly high.

This high margin between the actual cost of production and purchase prices which was shared by the Company's Officers and middlemen, gave the private merchants their chance, as during the period of 1823—28 their trade increased by 35½ per cent over

1817—22 as against a rise of Company's trade of 17 per cent during the same period.

The divergence of purchase prices over sale prices became so great that between 1830—32 in the London Warehouse 6824 bales of raw silk remained unsold. Some of these, e.g., consignments from the Bauleah factory which had an invoice price of 16/3d per lb. could not be sold even when they were offered at 11s. per lb.

The law of 1765 prohibited the import for home consumption in England of foreign manufactured silk goods, hence the exports of Indian piece-goods to England were meant primarily for re-exportation. In addition to this, Indian silk manufactures were in demand in the United States, Cape of Good Hope and the Persian Gulf.

*Exports of silk piecegoods from Calcutta.*

Year	U. K.		U. S. A.		PERSIAN GULF	
	Bales	Pieces	Bales	Pieces	Bales	Pieces
1819	468	...	931	...	1078	...
1820	522	...	1235	...	795	...
1821	704	...	8059	...	578	...
1822	950	...	2955	...	387	...
1823	742	130,120	1618	108,107	371	75,664
1824	1105	161,785	2527	201,707	518	97,298
1825	1558	202,113	2974	143,399	428	85,140

In 1824 the prohibition to the importation of foreign silk piecegoods was converted into a duty of 30 per cent *ad valorem*, which was soon after altered to specific rates per pound, calculated upon different kinds of goods, e.g., Indian silk Bandannas not exceeding 6 yds. in length were charged 6s. per piece in 1827, those between 6 and 7 yds. were charged 7s. and 1s. for every additional yard. Taffetas were to pay 10s. per lb. by weight. This diverted the Indian exports from other countries and exports

to England gradually increased. In 1829 a duty at the rate of 20 per cent *ad valorem* was levied on imports.

*Imports into England of Bandannas and Corahs*

		Bandannas		Corahs
1831	...	71,300	...	66,400
1833	...	142,500	...	119,800
1835	...	205,200	...	217,800
1837	...	163,800	...	304,800
1839	...	146,400	...	363,600

Of these imports while the major portion of Corahs was re-exported after being printed in England, about half of the Bandannas was consumed in England as the following Table will show:—

*Percentage of Bandannas consumed in England to total Imports*

1831	...	90
1833	...	45
1835	...	48
1837	...	50
1839	...	45

The demand for Bandannas in England was so great that attempts were made "to introduce a spurious article from waste silk as substitute." In France, British silk had a good market so long as importation of Indian silk goods was prohibited, but "immediately after the prohibition was taken off the British trade to France was entirely annihilated."<sup>2</sup>

<sup>2</sup> Evidence of Joseph Tucker before Select Committee 1840.

*Exports from U. K. to France*

British silk piecegoods. Indian Bandannas

1832	...	£50,600	£29,500
1836	...	£15,600	£107,600
1838	...	£9,400	£202,200

But this growing industry could not thrive under the high tariff wall of 20 per cent *ad valorem* which had been raised against it. In 1830 vigorous attempts were made to introduce suitable designs in the printing industry in India with a view to export printed handkerchiefs to England, but the high import duties stood in the way of success and the printed articles were exported to Gibraltar, Constantinople and to the Continent.

On the 1st September, 1831, the Manufacturers and Dealers in cotton and silk piecegoods of Bengal submitted a petition to the Board of Trade complaining against the growing competition of British manufactured goods in Bengal which was facilitated by the inequality in the tariff and they prayed that "they be admitted to the privilege of British subjects" and that silk fabrics of Bengal meant for consumption in England should be admitted there free of duty on the same terms as may be charged on British fabrics in India. Their cause was taken up by the English merchants in London who in a letter to the Court of Directors on the 13th October, 1832 pointed out that while British goods imported into India paid only 2½ per cent, Indian silk manufactures were subject to a duty of 20 per cent. They submitted "it does appear to us not only reasonable and fair, but a measure of wise policy towards the Natives of India, to reduce as much as practicable, so great an inequality in duties which give so marked a preference in favour of British goods." They suggested that a drawback of 2½ per cent should be allowed on exports of Bengal silk piecegoods with a view to reduce the inequality. In his evidence before the Select Committee of the House of Commons in 1832 Sir Charles Forbes also pleaded for a reduction of these duties,

The English silk industry had been too well established by this time to fear the competition of the Indian industry and the imports of silk piecegoods from India were mostly the heavier Corahs which were not manufactured in England. Hence in 1840 before the Select Committee of the House of Lords, G. Larpent pleaded for the equalisation of duties. "I submit that as this is the last of the expiring manufactures of India the only one where there is a chance of introducing native manufactures, at least let it have a fair chance and not be oppressed with the duty of 20 per cent in favour of British Manufactures." The Select Committee however could not see its way to remove this duty on the ground of revenue.

Between 1825 and 1831 attempts were made to develop this industry in the Bombay Presidency. White mulberry silk used to be reared by small farmers in the Deccan, but this was intended for local consumption. Dr. Graham, Civil Surgeon of Ahmednagar took land on lease for the cultivation of mulberry trees. Dr. Owen of Sarroor and Mr. D. Greenhill, Collector of Dharwar tried to introduce it in their respective areas. Two weaving factories were started at Dharwar, one in the Jail and another near the Courts and in the latter four European looms were set up to which two European soldiers from Bombay, who were formerly Glasgow weavers, had appended the flyshuttle. Specimens of the silk grown at the different centres were sent to Bombay in October 1826 to be placed before a Committee of Indian Experts consisting of Jamsetjee Jeejeebhoy and 3 others who were of opinion that "The two skeins of this silk is of good quality and almost equal to the second sort usually imported from China; we estimate its value at about Rs. 10½ per *pukka seer*."

With a view to improve the quality of silk, the Bombay Government secured eggs of the French silk-worm and of a Piedmontese variety from St. Helena and Italian silkworms from Malta in 1830 and 1831. An Italian named Gineseppe Mutti started mulberry cultivation on a big scale at Poona, on land given to him by the Government at nominal rates in 1830. He built a

### **Provincial Autonomy as a Hindrance.**

A second limitation imposed by the administrative frame-work of the present as well as the proposed constitution arises out of the division of authority into two water-tight compartments, Central and Provincial (or State), specially in relation to the more important departments of economic life. The Provinces will have virtual autonomy in regard to agriculture, fisheries, co-operative credit, forests, mines, unemployment and industries (with a few exceptions): In particular it may be noted that the subject 'control of the production, supply and distribution of commodities,' has been specifically scheduled as a provincial subject.<sup>7</sup> And this administrative and legislative autonomy is accompanied by a virile and growing sentiment of cultural and economic provincialism as evidenced by recent practices and declarations regarding the recruitment for the various services in the Provinces. It may be that a certain degree of administrative decentralisation and cultural autonomy is a matter of practical and sentimental necessity. But, the attempt to cut up a geographic and economic unit into provincial compartments is against the entire trend of modern technical and commercial developments and is bound to involve such tremendous difficulties that any substantial plan of ordered and co-ordinated development will be smashed to pieces. Two concrete cases of recent experience will bring out the character and strength of these difficulties. Let us, first of all, review the proceedings and upshot of the Sugar Conference held in Simla in July, 1933. In view of the extremely rapid development of the sugar industry under the stimulus of an exorbitant measure of protection since 1930-31 and to safeguard against the risk of over-production, the provincial representatives were called together to arrive at some decisions regarding the future plan of development through a system of zoning, licensing, and price-fixing for sugarcane. Sir (then Mr.) J. P. Srivastava, Minister for Agriculture in the United Provinces, made out a strong case for legislative regulation.



## INTERNAL TRANSIT DUTIES UNDER THE EAST INDIA COMPANY

BY

B. B. MUKERJI,

*Patna University.*

[Based mainly on unpublished Records in the Bihar and  
Orissa Board of Revenue.]

The term “Sayer” was applied in the 18th century, “to a variety of inland imposts, but especially to local and arbitrary charges levied by zamindars and other individuals with a show of authority, on all goods passing through their estates by land or water or sold at markets established by them.”<sup>1</sup> It was a privilege enjoyed by zamindars all over the country and they used to derive a high revenue from it. Khafi Khan speaks of it thus—“The Rahdari, in particular, is condemned by righteous and just men as a most vexatious impost and oppressive to travellers but a large sum is raised by it.”

When the East India Company assumed the Dewany of Bengal they found that the free movement of trade was impeded by custom houses of the Government and chokeys or tollhouses established by Amils, Zamindars and Revenue farmers all over the country, in which the merchandise used to be detained and tolls levied.

The chokies or tollhouses were located on the banks of rivers and at cross roads. These belonged to the Government, Zamindars and Revenue farmers. The District or Sarcar was divided for this purpose into Chucklas, each Chuckla into Perganas, each

<sup>1</sup> Hobson Jobson.

Perghana into so many Mahals and each Mahal had a Chokey. When merchandise was exported or imported the duty was levied by the Daroga of the first Chukla through which it passed and he gave a certificate to enable it to pass through the remaining chokeys of the Chukla. The Daroga of the second Chukla realised his toll called Chittavun and gave a certificate in the same manner and this was repeated, till the goods reached the Gunge which was its destination. "If it so happens that the merchant or person in whose charge the goods are, cannot pay at proper Chokies for want of ready money, the Daroga sends a man with him to the Gunge as he intends going to and there recovers duties, but if the goods are designed for any Gunge not in this Sarcar and the owner has no money to pay the duties, such goods or a part of them are detained till the established Custom is paid."<sup>2</sup>

The system described above was not much objectionable though it meant some addition to the cost of transport which in many cases was shifted on to the consumer. Exaction at the large number of chokeys owned by Zamindars in addition to the Government chokeys, and frequent detention of goods there, were extremely vexatious to the merchant. "The Zamindary duties are collected by every Zamindar and Talukdar at his Chokeys notwithstanding the merchant may have paid Duties before at other Chokies in the same Pergana."<sup>3</sup>

Besides this the rates of duties varied according to the faith professed by the merchant and the Certificate or Rowanah granted at one chokey was frequently ignored at the next and fresh duties were levied. In the consultations of the Patna Council of Revenue on 6th April, 1771, we find a report from Raja Shetab Roy to the effect that many boats carrying betelnuts had arrived at Patna with Rowanahs from Dacca and the owners expected that these Rowanahs should carry them to Benares without further

<sup>2</sup> Letter from Keighly, Supervisor of Tirhut to the Revenue Council at Patna dated 24th Feb., 1772.

<sup>3</sup> Letter from Rev. Council Patna to Calcutta.

demands. It was decided that according to custom, the usual duties should be realised and a fresh Rowanah granted. The scales of duties in the Putchootra at Patna were:—

From Hindoos . . . Masool 5 p.c. *ad valorem*

Rasoom 0/2 p.c.

From Muhammadans ... Masool 2/8 p.c.

Rasoom 0/12 p.c.

In their Despatch dated 16th April, 1771, the Court of Directors drew the attention of the Calcutta Council to the private Bazar charges “as a great detriment to the public collections and a burthen and oppression to the inhabitants” and suggested that orders should be issued “enjoining that no Bazars or Gunnes should be kept up except by the Government.”

On the basis of this Despatch, the Calcutta Council issued a Circular letter to the Subordinate Revenue Councils directing them “to issue positive orders for the withdrawing of all Chokies in every part of the Districts under your charge, both on the river and within land excepting those General ones, signifying at the same time to all Zamindars and others that should any one of his own accord attempt to establish any petty Chokey in his District such a conduct will meet with our severest resentment.”<sup>4</sup> Not only it was intended to suppress the Zamindary Chokies but a reduction in the number and a better regulation of Government Chokeys was also contemplated. Each Chokey was to be placed under the supervision of the Supervisor of the Sirkar, who would keep proper Registers of Collection of Duties. They would communicate to the Revenue Councils by the 10th of every month, detailed accounts of duties realised, names of payees, number of boats, quality of goods, and period of time for which the cargoes were detained.

<sup>4</sup> Letter to R. Barwell, Chief of Patna, Rev. Council, dated 18th Dec., 1771.

In 1773 orders were issued abolishing "all duties coming under the description of Sayer Chelluntah and Rahdary on foreign and internal trade." Regulation XXI laid down that "all Zamindary Chokeys shall be abolished and none kept, but such as immediately depend on the Government and under the Puchuttera, Bucksbundar and Shahbuder." Next year, it was decided that "no duties of any denomination shall be levied at the Gunges, excepting on such goods which are actually sold theree."<sup>5</sup>

That the Subordinate Officers of the Company also realised the difficulties of the merchants and wanted the abolition of this system is clear from the following extract of a letter from Golding, Supervisor of Sircar Saran to the Patna Council:—"At present a man going with one bullock or with goods only to the amount of Rs. 2 may be stopped ten times for duties in the space of only 50 miles. Zamindary Chokeyqs are too many. The amount of the loss is very small and by allowing it to be deducted from the rents of the several Zamindars, this grievance would at once be removed, which is at present so injurious to the country and so oppressive to the lower class of merchants who cannot attempt to trade without the sanction of an English Dustuk."

Between 1773 and 1785 the Officers of the East India Company waged a relentless war against this practice and the records of this period are full of complaints of merchants against these exactions. In some areas, Zamindars were forbidden to levy duties on grain, and these were allowed on oil and ghee. As these articles generally were transported along with grain, the men in charge of the Chokeys on the pretext of charging on oil and ghee, levied duties on the entire consignment. In 1785 H. Revell, Collector of Customs, Patna, complained to W. Brooke, Revenue Chief of Behar against the levying of Raharry duties by Chabil Roy and stated that "such a precedent would be soon followed by a solicitation from the other renters of Behar for

<sup>5</sup> Council of Rev. Proceedings Fort William, 1st March, 1774.

similar indulgence which would re-establish that train of hinderance and oppression to the merchants, Beoparies etc., which the Board have been labouring so many years effectually to abolish." The following rates were charged by Chabil Roy:—

Barley	... 5 per cent on value, at 3 mds. 20 seers per rupee.
Paddy	... 5 per cent on value at 3 mds. per rupee.
Ghee on Bullock	... 2½ per cent on value at Rs. 7-10-9 per md.
Oil on Bullock	... 2½ per cent on value at Rs. 3 per md.
Mustard	... 2½ per cent on value at Rs. 0-12-0 per md.

The valuation was fixed by Custom.

In the General Regulation for the Collection of Customs dated Juné, 1718, it was ordered that the Company's Officers "were empowered not only to oblige the immediate offender to refund the money so extorted but also to inflict corporal punishment upon him on the spot where the exactions were made and the Zamindar Chowdhury and other proprietors of the Pergana or the place where the offence was committed shall be punished by a confiscation of the whole or parts of his lands." Zealous officers not only carried out the orders "by flogging (the offender) at the places where duties were collected and (the offender) being carried with a tomtom to publish their crime in all parts of the Pargana," but also notified that those merchants who could prove a "just complaint against Chokeydars" would receive as reward a rupee for every anna extorted from them.

In July 1790 the Governor-General issued an order directing the abolition of Sayer collections. In Bengal Regulation I of 1793 it was provided that "a full compensation will be granted to the proprietors of land for the loss of revenue sustained by them in consequence of this abolition."

Regulation XXVII of 1793 clearly laid down that "no land holder or other person of whatever description, shall be allowed to collect in future, any tax or duty of any denomination." This would exclude Government Customs, Calcutta Town Duties, tax on pilgrims at Gaya, Abkary, collections made in the Gunges. Bazars, Hauts in Calcutta, rent paid for the use of land or for houses, shops in markets. This abolition was extended to the Benares Province by Regulation IV of 1795 and in the Kabuliats that were taken from the Aumils it was stipulated that they would not be allowed to collect tolls and duties on the transportation of grain and "other articles of the interior trade under the penalty of being subject to a fine equal treble the amount of every sum so levied."

Gradually the Sayer duties were being abolished everywhere, but the different parts of the country were being considered as if they were separate possessions and the process of abolition was therefore uneven and lacked uniformity. In Septmber, 1804, a Proclamation was issued declaring that "Sayer of every denomination will be separated from Maul or Land Revenue" in the Province of Cuttack, signifying that these duties were being levied in Orissa while they had long been abolished in Bengal and Behar. It was considered desirable that without reducing the Government revenues, steps should be taken to simplify the collection of customs by reducing the different duties into a single tax, so that goods after paying the duty at one place may be transported throughout the country without let or hindrance. With a view to achieve this object Regulation IX of 1810 was passed.

All dues levied under any denomination on the transit, export or import of any commodity, not authorised by this Regulation, were abolished. The number of Customs Houses was reduced and these were placed under Collectors of Customs. These Officers were authorised to establish Custom House Chowkies at such places as may be deemed necessary on the principal routes or ghauts close to their Customs House," provided that no Chowkies shall be established at any greater distance than 2 *coss* or 4 miles

from any such Customs Houses." The Officers of the Chowkies were not to make any collections themselves, but they would detain any goods passing by their Chowkies unaccompanied by proper Rowanahs. All duties would be paid to the Collector of Customs only. In cases of commodities on which *ad valorem* duties were to be levied, such value would be specified in the Book of Rates which would be published for general information. Rowanahs would give all details about the commodities and their owner. Goods imported by sea, as had paid import duties, would be furnished with Maafee Rowanahs and they were to be exempt from transit duties. Salt, tobacco and a few other articles had a fixed duty. The Salt duty varied from 4 annas per maund for Salumba salt to Re. 1 for Lahore salt. In the case of the following commodities duties were levied on the basis of a fixed valuation :—

Raw Silk	... On import, export or transit $7\frac{1}{2}$ per cent on valuation Rs. 7 per seer.
Indigo	... On importation or transit—5 per cent on a fixed valuation of Rs. 100 per factory maund.
Beetlenut	... Of the growth of Bengal,— $7\frac{1}{2}$ per cent on a fixed valuation of Rs. 5 per factory maund.
Sticklac Shellac	... 5 per cent a valuation of Rs. 10 per maund of 80 Calcutta sicca weight.

Drawbacks were allowed on the export to London of several commodities like Silk, Long Pepper, Sticklac, Shellac, Spices and Sugar. No duties were levied on grain and food-materials.

As there was provision for drawbacks on exports and imported goods paid at the ports, the most important source of transit duties in India was from articles consumed in the country, e.g., salt, cotton, sugar, saltpetre, piecegoods, silk and iron. These duties were a great handicap to petty merchants. It was difficult

for small capitalists “ to pay their way through the Custom House Chowkies they have to meet, if moving to any considerable distance.” A merchant sending goods from Allahabad to Calcutta had to pass through 8 Custom Houses and innumerable Chowkies attached to each of them, at which his goods was liable to detention and search.

With a view to equalise the burden of taxation, Regulation X of 1810 was passed. Under this, a Town Duty was levied on the import for sale, store or consumption of various goods in the different towns of the Bengal Presidency. These duties were not to be levied on the transit of goods through these towns. The list of goods liable to pay these duties included Grain, Oil and Oil-seeds, Ghee and Tobacco, Salt, etc. The tax was collected through farmers of revenue.

In Madras formerly “ there were fresh exactions every 10 or 12 miles, every petty polygar exercising the right of levying duties in his own jurisdiction.” In the recently acquired territories in the Deccan, the old system of road or transit duties was continued and the collection was done through farmers. There was no uniformity in rates and these were not adapted to the value of the goods, being calculated on the bullock’s load. The result was that these duties fell heavily upon the coarser and lightly upon the finer varieties of goods. “ My enquiries ” wrote W. Chaplin to T. Hyde Villiers on 17th February, 1832, “ led me to doubt whether they were generally more burthensome to trade than the 5 per cent *ad valorem* duty of our modern regulations.” The farmer used to grant great indulgence to traders with a view to induce them to pass through his jurisdiction. By Regulation I of 1812 a general Inland duty of 5 per cent *ad valorem* was introduced payable at one Customs House only. Cotton, cotton-yarn and grain of all kinds were exempt from the Inland Transit Duty except on export by land to the Native States or Settlements of other European Nations. In place of the farming system, the Aumanee System, *i.e.*, collection by Officers of the Government, was introduced. The number of Custom Houses was very large,

and the officers employed in them were ill paid, hence great corruption ensued and the cost of collection went up. In spite of this Regulation, the old system prevailed in some areas. In Madura district, there were 21 Inland Customs Stations, and every one of these, of its own authority and against law, had at least 5 inferior Mettoo stations under it for collection of duties. These stations were leased out and the farmers oppressed the traders.

By Bengal Regulation XV of 1825 goods imported by sea passed free into the interior, while on goods intended for export, transit duties were levied and drawbacks were allowed at the ports in whole or in part as laid down in Schedule II of the Regulation.

These transit duties were striking into the very foundations of Inland trade. The natural inequalities of prices of commodities were enhanced by the imposts at various Chowkies in addition to the Government duty of 5 to  $7\frac{1}{2}$  per cent. Where it was possible to pass the burden on to the consumer, he suffered and owing to the freedom from inland duties on imported goods, these goods naturally undersold transit-duty—laden Indian goods with the result that Indian manufactures suffered.

Besides this, the petty merchants suffered in competition with the wealthier ones, as the burden of taxation fell lightly on the latter owing to the large size of his consignments. In a Memorandum on Inland Transit Duties dated 23rd June, 1825 (*Bengal Salt and Opium Consultations*), Holt Mackenzie, the Territorial Secretary, brought out vividly the evil effects of these duties and recommended that “the country might be relieved from the mischief of our Inland Customs without any very considerable sacrifice, at least if the salt duties on our Western Frontier were maintained.” With a view to make good partially the loss due to this abolition, he suggested the imposition of new duties on imports and exports by sea. The revenue from these duties at this time did not exceed £220,000, but this appeal remained unheeded.

In 1828 Lord Bentinck took up the cause in earnest and deputed Sir Charles Trevelyan to report on Transit Duties.

Trevelyan's Report reaffirmed the details which Mackenzie had brought out so clearly. Lord Ellenborough in England demonstrated the hollowness of this system of taxation. In his letter to the Chairman of the East India Company, dated 18th March, 1835, he brought out the gross inequalities of the import and export duties in India. He gave a list of 235 articles which were liable to pay Inland Duties and these covered almost all articles of domestic use. "The effect upon the national morals is yet more serious than the effect upon national wealth. Every merchant, every manufacturer and every traveller is compelled for the security of his property or the protection of his personal comfort and not unfrequently for that of the females of his family to enter into unlawful collusion with the Officers of Government." The Court of Directors expressed its unwillingness to take any drastic action.

Meanwhile this question had come up before the Select Committee of the House of Commons in 1832. Witness after witness spoke in severe condemnation of this system. Peter Gordon pointed out that raw silk exported from Bengal to Madras in a foreign ship had to pay a duty of 31 per cent including an Inland duty of  $7\frac{1}{2}$  per cent. It was entitled to a drawback of one-third of the inland duty if exported in a British ship to the United Kingdom, and a drawback of one-third if exported to the United States, but far from getting any drawback it was to be saddled with an extra sea export duty of  $7\frac{1}{2}$  per cent if exported to Madras in a foreign ship. "Thus Madras is on a less favourable footing than foreign Europe or United States of America."

Continued agitation had its effects. In 1836 Lord Auckland closed all Customs Houses in Bengal and abolished all town duties and the Court of Directors found their hands forced by the Governor-General. It was left to Lord Ellenborough to give the finishing touches to the abolition of the system, as Governor-General of India. In Sindh the Transit Duties were abolished in 1843. Madras followed with its Act V of 1844 and in Bengal Act XIV of 1846 laid down that from 1st June, 1846 all "regulations

as prescribe the levy of transit or inland customs duties or of town duties shall be repealed." This did not however repeal the duties "in force at the Customs Houses and Chowkies established on the line of the Jumna or on any frontier line upon goods crossing that line for import into or export from the territory of the East India Company."

Thus through the persistent efforts of a wise administrator, the internal trade of India was at last freed from its bonds.



# EARLY LAND REVENUE HISTORY OF AGRA PROVINCE—PRINCIPLES OF ASSESSMENT

BY

B. R. MISRA, M.A., LL.B.,  
*Lecturer in Economics, D.A.T. College, Cawnpore.*

## Condition before British Occupation.

The history of the occupation of the *Ceded* and *Conquered* districts has been narrated elsewhere.<sup>1</sup> Prior to the cession the *Ceded* districts underwent constant changes of Government. The Moghul Empire was the shadow of a great name. It was shattered to pieces. Independent Nawabs had founded principalities in different parts. The Nawab of Farrukhabad was ruling the districts of Etah, Mainpuri, and northern half of Farrukhabad. Vast portions of territory were under the Nawab of Lucknow, and administered by his nazims. Security of life and property was absent. Mr. Welland, who was the first revenue officer appointed to the district of Cawnpore wrote:—

“ The subjects in this part of the country are in the most abject poverty. Let the face of the country be examined and there will hardly be a manufacture found, or an individual in such circumstances as to afford the payment of a tax. The whole is one desolate waste, in which tyranny and oppression have hitherto universally prevailed.”<sup>2</sup>

The condition of the *Conquered Districts*, e.g., Agra and Muttra was hardly better. The incessant troubles and the successive contests for supremacy between the Mughals, Jats and Mahrattas must have had evil effects. Ahmad Shah Durani sack-

<sup>1</sup> See Misra, “ *Early Land Revenue History of Agra Province, Permanent vs. Temporary Settlement*, Indian Journal of Economics, July 1934. p. 77.

<sup>2</sup> Final Report of the Settlement of the Cawnpore District by F. N. Wright, B. A., Settlement Officer, 1874. p. 31.

ed Muttra in 1757 carrying away with him great booty. In 1776 the Jats were finally driven from the districts by Najaf Khan. On his death in 1782 the Mahrattas under Sindhia gained possession and from them the British obtained it by conquest under the treaty of Arjengaum of December 30th, 1803. Such quick changes in the sovereignty followed by tyranny of marauding expeditions could never have been conducive to stable forms of farming.

#### **Early English Settlements—Methods of Assessment.**

The early years of British rule were far from a blessing. The prompt realisation of a large revenue necessary for conducting wars in which the Company was engaged in that period was the chief concern of the mercantile rulers. There was no question of principles of assessment in such a period. The early settlements were made in a rough and ready manner varying from three to five years. The collector sat in his office at the *sudder* station, attended by his right hand men the *Kanoongoes*, by whom he was almost entirely guided. As each estate came up in succession, the brief record of former settlements was read, and the fiscal register for the years immediately preceding the cession or conquest was inspected. The *Kanoongoes* were then asked who was the zemindar of the village. The reply to this question sometimes pointed to the actual *bona fide* owner of the estate, sometimes to the headman of the village community, sometimes to a non-resident Sayid, Jat, Thakur or Kayasth. Occasionally, a man was said to be zemindar who had lost connection with the estate, though his name might have remained in the *Kanoongoe's* book. As the dicta of these officers were generally followed without little further inquiry, the vast injustice these summary settlements must have resulted in, can easily be imagined.

#### **The Determination of the Amount of Revenue.**

The determination of the amount of revenue was based on the estimated gross assets of the estate. The revenue assessed was on

the whole of such assets after a deduction of 10 per cent for the support of the engaging proprietor and 5 per cent for village expenses including the salary of the *patwari*. In calculating such assets, the *Sir* was rated at a nominal rent and rent-free holdings were excluded. Naturally, the greatest difficulty was experienced in ascertaining the true assets of the estate. On this point the assessing officer was dependent on estimates furnished by the tahsildar, who was paid a percentage of the amount realised, and was not therefore likely to err on the side of leniency. The estimate thus based on notoriously fraudulent and incomplete statements was a leap in the dark. Mistakes were common. Full revenue was difficult to realize, necessitating adjustment of the demand even during the currency of the short term leases. Mr. Dumbleton, Collector of Cawnpore, in a letter to the Secretary, Board of Revenue (unfortunately the date is not mentioned) described thus the evil results of assessments:—

“ There is little doubt that this method of assessment stereotyped the severe rates imposed under the Nawab’s government without the same elasticity in realizing them; and there is little doubt that either these settlements were made in the most utter ignorance of the capability of any estate to pay them, except where by absolute importunity the old proprietors compelled the collectors to listen to their protests and to personally enquire into the condition of any individual estate. The most merciful assessment took into consideration the actual assets of four years and struck an average.”<sup>3</sup>

*Defcts.*—Great discontent was naturally excited by these blind and summary settlements among those whose rights were overridden or neglected. The right of occupancy was regarded as a sacred right of which few would deprive the cultivator. Under these sweeping changes the new zamindars had little respect for traditional customs and rights and their chief aim was

<sup>3</sup> Final Settlement Report of the Cawnpore District 1878. by F. N. Wright, B. A., Settlement Officer p. 89.

to realise as much revenue as possible lest their newly got zemindari may not be put to auction for arrears of revenue. These first settlements entirely obliterated all customary rights whether of zemindars or occupancy; and the evil done is of such a magnitude that it is impossible to redress it now.

The aggrieved persons were asked to apply to Civil Courts to redress their grievances. The resort to Civil Courts was worse than useless. In the absence of any record of rights or other detailed information regarding the nature of land tenures the courts could do nothing to remedy the injustice which had been committed. They made confusion worse confounded. The evils arising from the haste and ignorance of early settlements were further aggravated by the measures adopted for the realisation of the revenue. No record of any shares was made besides those of the *lambardar* or actual engagers with Government, much less which each co-sharers was bound to pay. Hence much difficulty was presented to discover the defaulters when arrears accrued. Under such circumstances the main expedient on which the collector relied was to prevent default by keeping watch-men over the crops till the revenue was realized. When this failed, the *lambardars* were imprisoned, and their personal property distrained. The next step was to put the whole estate to auction. Many of the sales were got up by the officers of the Government or by their friends, who themselves became purchasers at a merely nominal price.

Mr. Ravenscroft, Collector of Cawnpore, sets forth in a very powerfully worded letter dated 21st February, 1816, the causes of the heavy transfers of landed property:—

“ If the cause of the public sales and of the desolation which covered the face of the country in the years 1215 and 1216 fasli be asked, I reply without hesitation that the old system upon which the collections were made in those days was a system of rack-rent, and oppression and ruin must ever attend it in any country where the resources of the State are drawn from the rents of land. In numerous instances the alleged balances did not

probably stand against the parties who engaged and whose estates were sold. The tahsildars in a new country, invested with absolute power over the internal management of all estates within their jurisdiction, and spurred on by a percentage to collect as much as they could without any scruples as to the mode, upon the most false and frivolous pretences threw innumerable estates *Kham*, embezzled the revenues themselves, and brought the estates to the hammer for a fictitious balance at which the choicest villages were purchased in the names of their own connections or by the reigning *amla* in the substituted names of their relations or of men of straw.”<sup>4</sup> In Cawnpore, alone, in 1803, on account of excessive revenue demand and failure of rainfall, even though remissions were granted, numerous estates were brought to sale for arrears and were bought up by revenue officials. The revenue officers alone purchased for Rs. 85,638 estates paying a revenue of Rs. 1,71,000. The fraudulent sales were facilitated by the almost absolute ignorance of the names and status of the actual revenue payers. In some cases estates not actually in arrears were unjustly brought to the hammer, and fraudulently purchased by the tehsildars, on the specious but incorrect plea that the *Mukaddam's* designation did not cover proprietary title. Numerous instances also occurred where the actual proprietor was totally unconscious that he was in arrears and his estate was put to auction..

Thus the absence of a record of rights, and the ignorance of revenue officials caused a havoc in the rural economy. The rights of hundreds were annihilated for the default of a few when the smallest inquiry and vigilance would have prevented the catastrophe. Many a populous prosperous community was unjustly deprived not only of proprietary rights but also of occupancy rights of their paternal fields.

<sup>4</sup> Final Report of the Settlement of the Cawnpore District 1878. p. 39.

### Regulation I of 1821.

The confusion caused in the state of landed property by these mistakes became at last so notorious that it could not any longer be overlooked. Mr. Robertson, Judge and Magistrate of Cawnpore (afterwards the Lieutenant Governor of these Provinces) brought to the notice of the Government of India in 1818 and again in 1820 the deplorable results of the working of the revenue system.<sup>5</sup> He advocated the appointment of a Special Commission which should remedy the defects, which the Civil Courts were unable to remedy. "Nothing can," he contended, "be more futile than the doctrine that because a fraudulent transaction has been smuggled through the forms of office, the Government are pledged to maintain it as their deliberate act, and to be debarred from correcting any error that may have a tendency to admit upon the people (sic) that violence and wrong, which those very forms were enacted to prevent and exclude." On the 27th February, 1821, the Governor General in Council passed a resolution giving effect to the Provisions of Regulation I of 1821, establishing a Special Commission invested with powers amounting almost to a judicial dictatorship. Every public or private transfer of land which had taken place within the first seven or eight years of the early British rule was declared open to inquiry and annulment by the Commission, if equity required. Every act of the revenue officers performed in the same period was similarly thrown open to revision. In Cawnpore much good was done by the Special Commission. Of 243 suits instituted to set aside the auction sales, 185 were decreed.

### Mr. Holt Mackenzie's Minute.

Mr. Holt Mackenzie, the Secretary Board of Revenue, wrote his famous Minute dated 1st July, 1819. This remarkable Minute, it is hardly too much to say, is a mine of information and will pay the most careful study. Mr. Mackenzie who was of

<sup>5</sup> Settlement Report, Cawnpore. 1878 'Covering Letter' p. 7.

studious habits and gifted with a keen and comprehensive intellect contended that the only sure basis upon which revision could rest was the detailed measurement field by field of the whole area under settlement, with a careful classification of various types of soils according to their varying productiveness. Great facilities were naturally offered during the course of such detailed measurement and investigation for ascertaining the different types of land tenures and the rights of occupancy in land. These views were fully accepted by the Government, and were embodied in the famous Regulation VII of 1822.<sup>6</sup>

#### **Regulation VII of 1822.**

Regulation VII of 1822 marks the birth of the development of the revenue system of the North-Western Provinces. As noted elsewhere,<sup>7</sup> the promise of a permanent settlement was held out soon after the acquisition of the ceded and conquered provinces, but it became clear that no settlement could be made in perpetuity which did not give legal recognition to the sub-proprietory rights of the cultivating classes. It was therefore, necessary that detailed inquiries should be instituted respecting the various forms of tenures actually recognised in the country. It was with the object of organising these enquiries that Regulation VII of 1822 was passed.

The Regulation laid down the principles according to which the settlement of the land revenue should be made in the ceded and conquered provinces. It, for the first time, definitely recognised, defined, settled and recorded the rights, interests, privileges and obligations of various classes and persons possessing an interest in the land, or in the rent or produce thereof. Provisions were made in the case of estates held in *pattidari* or *bhaichara* tenure, for the protection of sharers who had not been admitted to en-

<sup>6</sup> See *Selections from the Revenue Records, North-Western Provinces 1818-20.* Calcutta 1866. Secretariat Library, Allahabad. They contain the 'Minute'.

<sup>7</sup> See Misra. "Revenue History of Agra Province. Permanent vs. Temporary Settlement." Indian Journal of Economics July 1934, p. 81.

gagements with Government against the encroachments of the *malguzars*. The existing settlement was extended for a further period of five years.<sup>8</sup>

**Principles of Settlement. A Record of Rights.**

The proprietors of estates let in farm or held *Khas* were allowed to receive *malikana* not less than five and not more than ten per cent of the Government *jumma*.<sup>9</sup> The revision of the settlement was to be made village by village and mahal by mahal.<sup>10</sup> The assessment to be demanded on the revision of the settlement was to be fixed with reference to the produce and capabilities of land."<sup>11</sup> Herein was laid down a definite principle for the assessment of the land revenue in future. The fullest information was to be recorded regarding land tenure, and the rights, interests and privileges of the various classes of the agricultural community. It was the duty of the collector to prepare 'a record of rights' in every village or estate before settling the land revenue it was to pay. Section IX of the Regulation laid precise conditions for the preparation of a record of rights on the occasion of making or revising a settlement. The record of rights was to contain the fullest information regarding various types of land tenures, local customs, and the interests, rights and liabilities of different persons and bodies possessing interest in land. It definitely recognised the rights of village communities. The village communities performed the distinctive functions of the common employment of village artisans and functionaries, the common management of irrigation channels and erecting works of public utility, derived their revenue from each coparcener in the village. The early revenue officers neglected the existence of these communities and settled the revenue with a landlord or zamindar. Regulation VII

<sup>8</sup> Regulation VII of 1822. See the preamble to the Regulation.

<sup>9</sup> Regulation VII of 1822 Section V Clause. 2.

<sup>10</sup> Regulation VII of 1822 Section VI Clause 2.

<sup>11</sup> Regulation VII of 1822 Section VII Clause 2.

marks the birth of the official recognition of those village communities and their rights.<sup>12</sup> Thus in villages where these bodies had preserved their constitution and had not been swept away by the neglect and sweeping enactments of the early times, a 'sub-settlement,' (*mufassal* settlement was the term used in Regulation VII of 1822) was made, which fixed what the village was to pay to the landlord.<sup>13</sup>

**Principle of Joint and Several Responsibility. Creation of Lambardars.**

In cases where the village was possessed jointly by two or more persons the revenue officers were instructed to make a joint settlement with the entire body as a jointly and severally responsible unit. When the joint settlement was made it was open to the body to appoint an agent (the *lambardar*) 'to undertake the management of the *mahal* as sunder malguzar.'<sup>14</sup> It was also enacted that lands separately owned and occupied though held in one *mahal*, may be separately settled (perfect partition of estates).<sup>15</sup> Thus some of the main principles of the modern settlement operations and assessment were laid down in Regulation VII of 1822.

The Regulation, however, could not be efficiently worked because there were vital defects in the new system arising chiefly from the want of a personal experience in the civilians of the duties of a subordinate revenue officer. Too much detail was required on all points. In determining the revenue broad principles were neglected in the intricacies of a laborious calculation. Arbitrary rates were applied to arbitrary classification of soil. There was only one Board of Revenue at Calcutta, far from the scene of operations, to be of any use as a directing authority, in the work. The revision went on slowly, 10 or 20 villages were

<sup>12</sup> See Regulation VII 1822, Section ix. Clause 1.

<sup>13</sup> Regulation VII 1822 Section x. Clause 2.

<sup>14</sup> Regulation VII of 1822 Section x. Clause 3.

<sup>15</sup> Regulation VII of 1822 Section x. Clause 9.

thought to provide enough work for a whole year. In Aligarh District only 127 villages were settled in seven years the average rate being nineteen per annum. When 10 years had elapsed since the promulgation of Regulation VII of 1822, it was calculated that 60 more years would be required to complete the work in many districts. The system, in short, though admirable in theory, had broken down in common practice.<sup>16</sup>

**Regulation IX of 1833. Conference of Revenue Officers 1833.**

The problem to find out a practical scheme of assessment was discussed at a Conference held at Allahabad over which Lord William Bentinck presided; and the result was the passing of Regulation IX of 1833. It was an amending law, it simplified the method of assessment and made it more practical and easy. The effects of the law may be summed up thus:—

- (1) It was not necessary that disputes and claims of all kinds and of any standing should be adjudicated at the time of settlement. The majority of judicial cases were transferred from the settlement officer's court.
- (2) The tedious estimates of the quantity and value of actual produce, were dispensed with and the system of average rent and revenue rates for different classes of soil was introduced.
- (3) The patwari's annual papers were put on a new and wholly different footing. The important addition of a field map (*Shajra*) was made to *Khasra* for registering private rights.
- (4) Indian Deputy Collectors were appointed to help in assessment.
- (5) The period of settlement was extended to 30 years.
- (6) The state demand was reduced to 66 per cent.

<sup>16</sup> See *Industrial Organisation of an Indian province* by Theodore Morison F 29.

As a result of the Regulation IX of 1833, the Western Board of Revenue was created with two members. The Junior Member, Robert Mertins Bird, directed the task of settlement operations. The first regular settlement of the North-West Provinces (excepting Dehradun and parts of Bundelkhand) was made between 1833 and 1844 for a term of 30 years.

The standard of assessment was two-thirds of the assets, that is, two-thirds of the gross rental of lands cultivated by tenants. A like proportion of the net profits of the land cultivated by the landlord was also demanded.

The procedure followed by Bird consisted of five stages, viz. :—

- (1) In the first stage a rough estimate of all the land included in the fiscal area was made.
- (2) In the second a field map (*Shajra*) was prepared.
- (3) The third consisted in making a professional survey showing the cultivated and the uncultivated land.
- (4) The fourth process was the fixing of the land revenue for the entire fiscal area.
- (5) In the last stage the entire amount was apportioned among the villages contained within the area.

“ We then proceeded,” said Mertins Bird, “ to investigate the assessment of the Government Land Tax upon that tract, finding out, as best we could from the previous payments, and from the statements of the people themselves, from the nature of the crop and the nature of the soil, and such various means as experience furnished to us, what might be considered a fair demand for the Government to lay upon it.”<sup>17</sup>

Bird’s method of assessment has this weak point of his system. “ It left the widest latitude in the Settlement Officers, and the greatest uncertainty in the liabilities of the agriculturist. No

<sup>17</sup> Quoted in *India—the Victorian Age*. R. C. Dutt. p. 85.

two Settlement Officers could form the same judgment on data which was so vague, and the assessment made at one settlement has departed from, and generally enhanced, at the next settlement.”<sup>18</sup>

In spite of this grave defect Bird’s system has an important stage, in the evolution of the revenue system of the province. His settlement was worthy of the time. It considerably moderated the excessive and oppressive demand of the first thirty years of British rule. It gave the agriculturist a great relief from continuous harrassment of short term loss by giving him a long term settlement.

### Conclusion.

Before we close this paper on the early land revenue policy, two important questions, however, remain to be answered, viz.:— (1) what was the proportion of the gross income which went to the state and (2) what principles were followed in estimating that gross income.

With regard to the first question the answer is easy. The Government demand of the proportion of the gross income had been constantly decreasing. In the beginning the proprietors were given only a small portion of the rents collected by them which was not more than 10 per cent. Regulation VII of 1822 fixed the State share at 83 per cent and Regulation IX of 1833, at 66 per cent, while the Saharanpur rules of 1855 reduced it to 50 per cent.

No doubt there was a gradual increase in the share of the assets surrendered to the proprietors, but the amount of revenue demanded from them was constantly being revised and usually enhanced. The fiscal history of the ceded and conquered districts during the early part of the British rule was one of constant change and much chaos prevailed. Take the case of Muttra,

<sup>18</sup> Quoted in *India the Victorian Age*. R. C. Dutt. p. 35.

Cawnpore and Aligarh districts. The Cawnpore district was ceded by the Oudh Government in 1802. The people at the time of cession were reported by Mr. Welland, the first collector, to be in a state of most abject poverty. At the time of cession Mr. Montgomery thought, it was the object of the Nawab to show as high returns of revenue as possible in order "that the British Authorities might be amused with an exaggerated estimate of their acquisition."<sup>19</sup> *And yet the first settlement made by the British revenue authorities was an advance on the exaggerated estimate given by the Nawab's rent-roll.* The result was that the settlement completely broke down a year after it was made, necessitating large remissions amounting to nearly one-sixth of the entire revenue of the district. This opened the door to a flood of chicanery, fraud and deceit on the part of the native officials, and a large number of estates were sold for arrears of revenue.

The earlier settlements of the district were based on the estimated gross assets of each estate, and the revenue assessed was on the whole estate, after a deduction of 10 per cent for *malikana* and 5 per cent for village expenses. Large reductions were made in the second and third settlements; and an equitable distribution of revenue was made by Mr. Newnham in the fourth settlement. This settlement worked well till "the failure of the great indigo houses and the stoppage of the country cotton factories." The assessments of each successive settlement were as follows:—

	Rs.
First	24,69,046
Second	23,86,090
Third	23,16,301
Fourth	23,20,548
Fifth	21,81,776

<sup>19</sup> Final Report on the Settlement of the Cawnpore District pp. 31, 32.

The district of Muttra formed part of the conquered provinces obtained from Sindhia by the treaty of Arjengaum, dated 30th December, 1803. The arrangements for the collection of the revenue for the first year were merely provisional. Under Regulation IX of 1805 it was ordered that there should be a triennial settlement from June 1805 to May 1808, another triennial settlement from June 1808 to May 1811, and then a quartennial settlement from June 1811 to May 1815, after which a permanent settlement was to be made for all lands in a sufficiently advanced state to allow of it. As the question of the permanent settlement was shelved, a quinquennial settlement was made which continued till the May of 1830. Under Regulation IX of 1833 Mr. Tyler made a fresh settlement in 1842 which continued till the year 1872. Such is briefly the progress of settlement operations in the district. The revenue demand in the various settlements is given below:—

	Rs.
First triennial settlement 1805—1808	... 10,13,258
Second triennial settlement 1808—1811	... 10,76,304
,,      ,,      ,, extended to 1815	...
Third quartennial settlement 1815—1820	... 11,99,997
Fourth settlement 1820—1842	... 14,28,188 <sup>20</sup>

Mr. W. H. Smith in his Settlement Report of Aligarh district mentions that there was an enormous increase in revenue up to 1833; it rose from Rs. 1,929,878 in 1804-05 to Rs. 3,314,022 in 1815-16, a 71 per cent increase in twelve years.

In the case of Cawnpore it would appear that there was a continued decreased demand at each successive settlement. But such was not the case. Theodore Morrison rightly lays down two infalliable tests by which we can judge whether the early assessments were excessive or not. (1) If the Government was unable

<sup>20</sup> Report on the settlement of the Muttra District by R. S. Whiteway. Bengal Civil Service. 1879. p. 53.

to realise the demand, and (2) if estates were constantly changing hands.<sup>21</sup> Judged by these two tests the early settlements were certainly excessive. We have just seen that in the case of Cawnpore, in the very first year of the settlement, the Government had to grant remissions up to one-sixth of the entire revenue of the district. In fact, the burden of revenue was too heavy and hence out of sheer necessity the revenue was decreased in Cawnpore. The revenue demands of the first Triennial Settlements were rarely collected in full. In Aligarh, a sum of Rs. 2,457,253 was demanded for the last year of settlement, 1807-08, of which a sum of Rs. 1,934,485 was collected. Mr. Whiteway the settlement officer of Muttra district 1879 stated that 'the earlier settlements professed no scientific accuracy; the assets assumed were roughly the highest the zemindars would agree to give; while in no year was the full amount of the demand collected.' The same story is told in other districts.

The second test of the severity of the revenue, viz., whether the property was changing hands is also borne out by the various settlement officers. Mr. F. W. Wright examined this question with great care with regard to Cawnpore district from the first settlement to the final settlement of 1887. The statement given in para 192 of the Report showing the position of hereditary owners at successive periods is extremely significant and suggestive and may be put in an abstract here<sup>22</sup> :—

FIRST FOUNDING		AT SESSION 1802		AT SETTLEMENT 1840		AT PRESENT REVISION 1878	
Hereditary	Purchaser.	Heredis- tary.	Purch- aser.	Heredi- tary.	Purch- aser.	Heredi- tary.	Purch- aser.
100	...	84·3%	15·7%	60·0%	40·0%	37·4%	62·6%.

<sup>21</sup> See *Industrial Organisation of an Indian Province*. Theodore Morrison. p. 34.

<sup>22</sup> Final Settlement Report of Cawnpore. p. 36. Pare 102.

The above statement clearly shows that the alienation of land belonging to old proprietors had been going on at an alarming speed with the result that from 1802 to 1878 the percentage of area possessed by the purchasers was 62.6 per cent as compared to 37.4 per cent possessed by hereditary classes. For Muttra district figures of sales of land are not available before the settlement of Mr. Tyler under Regulation IX of 1833. The figures for sales of land for arrears of revenue from the time of Mr. Tyler's settlement to Mr. Whiteway's settlement 1879 show interesting developments. They are<sup>24</sup> :—

	Acres
(1) During the first 12 years	... 64467 (1838—50)
(2) During the next 7 years, up to Mutiny	2408 (1850—57)
(3) From Mutiny to 1878	... 9914 (1858—71)

It is difficult to form an accurate estimate of these transfers as the composition of the area of the districts was frequently changed.

The settlement officer, however, stated that by 1878 42 per cent of the area was permanently transferred from persons who were proprietors at the time of British conquest while over one-third of the area was permanently transferred from those persons with whom the last settlement was concluded.

## ECONOMIC IMPORTANCE OF BEHAR DURING THE MID-EIGHTEEN CENTURY

BY

KALI KINKAR DATTA, M.A., P.R.S.,  
*Lecturer, Patna College.*

The middle of the eighteenth century was a turning point in the political as well as the economic history of India. Since the death of Aurangzeb on the 3rd of March, 1707, the Mughal Empire fell a victim to various disruptive forces such as terrible succession wars, treacherous conspiracies and selfish jealousies of the nobles, and devastating foreign invasions (of Nadir Shah and Ahmad Shah Abdali) which hastened its dismemberment; the militant Maratha Imperialism under the Peshwas simply helped this process and could not, for various reasons, fill suitably the vacuum created by its gradual working. While the old order was thus being destroyed, nothing new and consolidated had till then taken its place; the English East India Company which was ultimately destined to create a new order of things was then anxious for the safety of its own position and its intervention in the political affairs of the time could effect no improvement. Thus there were confusion and political disorders all round and the Bengal Subah's Province, of which Behar then formed a part became severely affected by these events.

Progress in every sphere of life becomes obstructed in the absence of peace and order, and the political disturbances of the mid-eighteenth century naturally brought economic troubles in India, especially in Bengal and Behar. Referring to the decline of trade and industry at Dacca, Rennel wrote in the month of August 1765, "We may easily account for it by the continual

wars which have of late years wasted the whole country, and in the fomenting of which we have had too large a share."<sup>1</sup>

But in spite of this economic decline which had begun slowly eating into the vitals of the country's prosperity, Behar remained economically important during the period under review. It was this economic importance of Behar which had led to the establishment of factories by the three European Companies, the English, the Dutch and the French, in different parts of the province. Each Company had a factory house at Patna and at other places like Futwah, Bhagalpur and Monghyr. A critical study of the Records preserved in the Imperial Record Department in Calcutta have supplied me with highly interesting and important details (which I can not include here for want of space)<sup>2</sup> about the history and the economic transactions of those European factories in Behar which throw a flood of light on the economic history of our Province during that transitional period. Besides the European traders, adventurers and merchants from different parts of India had entered into the Province and had settled there for commercial and banking concerns. The names of Omichand, Deepchand and other Punjabi merchants and bankers, settled at Patna, are frequently referred to in the records of the time,<sup>3</sup> and I believe that a study of the old family genealogies of some bankers living in Patna city might bring out interesting facts.

This economic importance of Behar was due chiefly to the manufacture of saltpetre, and opium, which were very valuable articles for foreign as well as internal trade. Most of the Salt-

<sup>1</sup> An unpublished letter of Major James Renned, dated August 1765, printed in Bengal: *Past and Present, July—September, 1933.*

<sup>2</sup> Vide— K. K. Datta, *Studies in the History of the Bengal Subah, 1740—1770* Vol I (to be published by the Cal. University).

<sup>3</sup> Letter from the Bengal Council to the Court of Directors, dated 30th Nov., 1746; Letter to Court, 31st Jan., 1745-46, paras 47-49.

petre exported by the East India Company was manufactured within the province of Behar.<sup>4</sup>

The French and the Dutch were the rivals of the English in this saltpetre trade. The demand for saltpetre had increased at that time owing to its greater use for gunpowder necessitated by the European wars like the War of the Austrian Succession and the Seven Years' War. The Dutch traveller Stavorinus, who visited Bengal in 1770-1771, remarks:—" Saltpetre is likewise a principal article, which is equally produced in the Province of Behar. In the year 1770, full two millions and a half pounds weight, of this article was exported by the six ships of our Company, which sailed from Bengal, in that year, three bound to Batavia, and three to Holland."<sup>5</sup> About the manufacture of and trade in opium the same writer remarks:—" Opium is a very important production, both for the inland trade, and that which is carried on by sea to the coast of Coromandel and Batavia. It is not, in fact, produced in Bengal, but in Behar . . . but all that is exported comes down the Ganges, through Bengal. More than one hundred thousand pounds of this drug is annually shipped by our (the Dutch) Company's vessels and is consumed at Java, the Molucca's and other places in the eastern part of Asia. The natives of all those countries are very fond of it, smoking it together with tobacco, or chewing it unmixed."<sup>6</sup> He describes further the process of manufacturing and packing this article in the following way:—" The collection of the opium takes place in the months of January and February. A piece of land of ten rood (a rood is the fourth part of an acre) square is generally estimated to yield five or six pounds weight of opium, and affords a great profit to the planter. When the sap has done fermenting, and has attained a proper degree of consistence, it is made up

<sup>4</sup> Fort William consultations, 25th Sept. 1752. *Vide* my paper on ' Saltpetre Trade of the English at Patna in Proceedings of the Indian Historical Records Commission, Patna 1930.

<sup>5</sup> *Voyage to the East Indies*, Vol. 1, pp. 478-479.

<sup>6</sup> *Ibid.*, p. 474.

into cakes. The leaves of trees, which have fallen are then collected from the ground, and after being wetted, one by one, are struck together, about the size of a common plate; the gummy substance is next taken up by the hands laid upon the leaves three or four inches thick, and covered with the same leaves. It is then carried to the factory, where it is narrowly examined, assorted and packed in square boxes which are lined together; these are then embalmed in goenje (a kind of strong and coarse cloth, or canvas, like carpeting, used for embalming of goods) weighed, the gross weight marked upon them, and sent down from Patna to Houghly or Chinsurah. They are weighed again, without packing them; and if they are found to weigh two or three pounds less than at Patna, they are approved of; for opium always dries up, and becomes lighter; but if they are heavier, it is a sign that they have received damage from water, during the passage down and they are then unpacked, and assorted anew, before they are shipped to Batavia. A gentleman who had resided many years at Patna, and from whom I obtained the above particulars, informed me, that the quantity of this drug collected annually in Behar, amounted to sixteen thousand maunds, which make upwards of one million pounds; the largest part of which is employed in the inland trade, and is conveyed by land carriage from Indostan to almost every part of Asia.<sup>7</sup> Abbe Raynal<sup>8</sup> has mentioned that Patna was "the most celebrated place in the world for the cultivation of opium. The fields are covered with it. Besides what is carried into the inland parts, there are annually three or four thousand chests exported each weighing three hundred pounds. . . An excessive fondness for opium prevails in all the countries to the east of India."

Patna was also famous for cloth manufacture.<sup>9</sup> The advance

<sup>7</sup> *Ibid*, pp. 477-478.

<sup>8</sup> Abbe Raynal, *The Philosophical and Political History of the Settlements and Trade of the Europeans in the East and West Indies*, Vol. I, pp. 318-319.

<sup>9</sup> Letter to Court, 3rd Jan. 1740, I. R. D. Calcutta. (H.M.)

of Safdar Jang, Nawab of Oudh, to Patna in December 1742<sup>10</sup> and of Balaji Rao through Behar in February 1743,<sup>11</sup> affected the English Company's investments at Patna and no *Chintz* (printed or spotted cotton cloth) or Laccowries (?) could be procured except two Chinted handkerchiefs.<sup>12</sup> Stavorinus has noted: "Printed cottons, commonly called Chintzs are not manufactured here (Bengal) but on the coast of Coromandel; except near Patna, in the province of Behar whence some of them come, which are called from the name of the place Patna Chintz."<sup>13</sup>

It may be mentioned here incidentally that excellent guns were manufactured at Monghyr. We find in the *Seir-ul-Mutakherin* that Mir Kasim was "amassing and manufacturing as many guns and flint-muskets as he could with every necessary for war."<sup>14</sup> Haji Mustafa, the translator of that work, has remarked that the European reader may possibly hear with surprise, that these firelocks manufactured at Monghyr proved better than the best Power-proofs, sent to India for the Company's use; and such was the opinion which the English officers gave then, when they made the comparison by order of the Council of Calcutta. Their flints were all of Rajmahal agates and their metal more mellow. And even to-day, 1786, Colonel Martin, a Frenchman who has distinguished himself these twenty-two years in the English service, has at Lucknow a manufactory where he makes pistols and fuzils better both as to lock and barrel, than the best arms that come from Europe. The comparison has been repeatedly made and Sir Elijah Impey, Chief Justice of the Supreme Court of Calcutta, carried to Europe one pair of these pistols."<sup>15</sup>

<sup>10</sup> Letter to Court, 8th Jan. 1742, Paras 93, 94. I. R. D. (H.M.)

<sup>11</sup> Letter to Court, 18th Aug. 1743, para 8.

<sup>12</sup> Letter to Court 3rd Feb. 1743, paras 57, 58.

<sup>13</sup> Op. cit., Vol. I p. 474

<sup>11</sup> Vol. II, p. 421.

<sup>15</sup> *Ibid.*, footnote.



# THE ECONOMIC DISINTEGRATION IN THE FIRST HALF OF THE NINETEENTH CENTURY

BY

CH. SITARAMA SASTRY,  
*Andhra University, Waltair.*

Politically this period was one of conquest and consolidation, but economically it was one of disintegration.

Province after province came under the Company's rule and the extension of Company's rule meant the cessation of wars and disturbances and the return of peace. The British were able to establish law and order and render protection to person and property. Administrative reforms were introduced and law courts were established to dispense civil and criminal justice.

The Charter Act of 1833 deprived the three presidencies of their independent powers of legislation and vested this power in the Governor-General in Council.

Land settlements were concluded in the various provinces and Collectors were appointed in each district who discharged two kinds of duties—fiscal and judicial.

Thus politically the British were trying to consolidate their Indian Empire and bring it under proper administrative control for the good government of the country.

But economically elements of disintegration set in. The social and economic equilibrium of society was upset. The higher ranks of society were more or less dissolved. The hand-craftsmen and others found their occupation threatened by the rapidly increasing flow of machine made goods into the country. A revolutionary change had taken place in the foreign trade of India: she began to part with her food-stuffs and raw materials and receive in return manufactured goods of various kinds. With

this change in the foreign trade of India, foreign interests began to predominate in the country. Foreign capital and enterprise gained the upper hand to the prejudice of native capital and enterprise. Unemployment and crime multiplied; pressure on land increased. With the decay of rural institutions the contractual relations got stiffened and offered resistance to smooth adjustment. Thus on every side economic diequilibrium set in. The gathering force of these several factors did not go unrecognised and policies were discussed so as to restore equilibrium the effects of which were felt later on.

#### **The Dissolution of the Higher Ranks.**

The many native States were absorbed by the British and their large establishments of officers, clerks, pandits, artisans, soldiers, and servants were dissolved.

The Mogul government was organised on a semi-feudal basis and the local governors enjoyed wide powers and maintained contingents of armies and large official and clerical staff besides innumerable servants and attendants. They often promoted the welfare of the people by the construction of tanks, canals, temples and choultries, workshops and warehouses. The dismantling of this feudal structure threw many people out of employment.

The land revenue policy of the Government also seriously affected the *status quo* of influential sections of the people. The uniform and rigid application of the Zamindari or Rayatwari system of revenue caused a good deal of injustice to people enjoying proprietary rights in land and when they were unceremoniously brushed aside it provoked resentment and rebellion as in the case of the Polygars and Nair chiefs of the south, or the talukdars of Oudh.

The introduction of the Rayatwari system in Madras and Bombay greatly weakened the village institutions and the corporate feeling among the people. Sir Thomas Munro observes: "One of the greatest disadvantages of our government in India is its tendency to lower or destroy the higher ranks of society to

bring them all too much to one level and by depriving them of their former weight and influence to render them less useful instruments in the internal administration of the country. The native governments had a class of richer gentry composed of Jagirdars and Inamdar and of all higher civil and military officers. These with the principal merchants and *rayats* formed a large body of wealthy or at least easy in circumstances. The *jagirs* and *inams* of one prince were often resumed by another and the civil and military officers were liable to frequent removal, but as they were replaced by others, and as new *jagirs* and *inams* were granted to new claimants throwing into the country a supply of men whose wealth enabled them to encourage its civilisation and manufactures. These advantages have almost entirely ceased under our government. All the civil and military offices of any importance are now held by European whose savings go to their own country.”<sup>1</sup>

It was this levelling character of the Settlement operations that was deplored by Robertson of N.-W. Province in 1842. The operation appeared to him “of a decidedly levelling character calculated so as to flatten the whole surface of society and eventually to leave little distinguishable eminence between the ruling power and the cultivators of the soil.”<sup>2</sup>

The higher ranks of society were thus greatly reduced and no new openings were created for the capable and aspiring youth of the country.

#### **The Industrial Revolution in England and the Decay of Indian Industries.**

The first sample of English Muslin was sent to Bengal in 1783 and it was accompanied by the following note from the Court of Directors.

“ We transmit you by this conveyance three small boxes containing musters of some muslins, the produce of a manufacture

<sup>1</sup> Quoted by R. C. Dutt, p. 166. India Under Early British Rule.

<sup>2</sup> Quoted by R. C. Dutt. p. 52. India in the Victorian age.

that has lately been set up at Manchester—the great degree of perfection to which this manufacture is already arrived; although at present only in its infant state, the prices which are 20 per cent under our own cannot but alarm us for so important a branch of our commerce . . . . We doubt not therefore but you will also exert yourself to the utmost in causing the manufactures of Bengal to pay every attention not only to an improvement of the fabric of muslins but also to a reduction of the prices, and on both the one and the other will depend very much our future success in this article.”<sup>3</sup>

Let us compare the tone of the above with the following and understand the rapid strides in the progress of the British cotton industry. In the letter of August 20, 1788, the Court of Directors observed: “By the great ingenuity and persevering industry of the British manufacturers the article of muslins in the ordinary and middling assortments is at length brought to that degree of perfection that there is every reason to apprehend a sufficient supply of the best Surat cotton will enable them to meet the Indian white piece-goods of the above description in the foreign markets.”<sup>4</sup> In the course of the same letter they also noted that the duty and freight on the Company’s import had already enabled the English manufacturers to undersell Indian cotton goods in the British market.

The English market was closed to Indian textiles and soon the Manchester goods were tending to become a serious rival in our own country. The Court of Directors enquired in March 1788 whether Manchester goods were “likely to answer for sale” in India. A little later in compliance with the wishes of the English manufacturers they decided to import into England 500,000 lb. weight of Broach and Surat cotton. Thus a change in the nature of foreign trade of India had set in; instead of exporting manufactured goods India began to export raw materials.

<sup>3</sup> Despatches to Bengal, 1783.

<sup>4</sup> Despatches to Bengal, 1788.

The abolition of the monopoly of the East India Company in 1813 set the foreign trade of India free from its old moorings. The trade was taken up by the free merchants who were not bound by any traditions. There was no necessity to adjust themselves to the exigencies of finance. They put the trade of India on a broader basis and opened new branches of trade. They were anxious to help the home industries by providing raw materials. It was they who started the export of cotton piece-goods from England to India.

The merchants and manufacturers of Sheffield presented a petition against the renewal of the Company's exclusive trade after the term expiring in 1814. They declared themselves to be "fully persuaded that if the trade to the East Indies were thrown open to all His Majesty's subjects such new and abundant markets would be discovered and established, as would enable them to set at defiance every effort to injure them by that sworn enemy to their prosperity and the peace of Europe the present unprincipled ruler of France and that the petitioners doubt not if the trade of the United Kingdom were permitted to flow unimpeded over those extensive, luxuriant and opulent regions . . . the waters of commerce might continue to flow ever afterwards in regular and fertilising streams."

Manufacturers of various articles declared "themselves as well as their country wronged by being restrained from pouring an unlimited supply of their various commodities into India."<sup>5</sup>

"The waters of commerce" observes, Auber—the author of "Rise and Progress of British Power in India,"—"have not altogether operated as 'fertilising streams' to that country; they have in some instances been the waters of 'Marrah' her manufactures have perished and a large portion of her people in consequence been thereby subjected to intense suffering."<sup>6</sup>

<sup>5</sup> Thornton's History of India, Vol. IV, p. 217 footnote.

<sup>6</sup> *Ibid.* 217.

never above the subsistence level and hence there can be no marked fall in the wages without producing widespread distress. This is borne out by the evidences quoted below.

Sir Thomas Munro states that the average wages of agricultural labour in India was between 4s. and 6s. a month (i.e., between Rs. 2 and Rs. 3) and the cost of subsistence was between 18s. and 27s. a head per annum (i.e., between Rs. 9 and Rs. 13½).

Richard Jenkins, the Resident at Nagapur, gives a detailed account of the various working classes in the report submitted to the Supreme Government (1826). He observes:

“ Labourers hired by the day, are often paid eight months of the twelve in money.

“ When there is a demand for labour able bodied men get two and a half and three pice a day, but two seems to be the common rate for men and women in the country. The quantity of food and other necessaries that a family depending on daily hire for its subsistence can procure depends upon the price of grains—as long as it is moderately cheap; they can procure a sufficient quantity of coarse food; but in dear years they are often reduced to the greatest distress, are obliged to shift from one district to another and to have recourse to petty plundering and theft for a subsistence.

“ Labourers hired for fixed periods, as by the month or year are almost always paid in grain and seldom in money, excepting when grain gets very dear: a farm servant usually receives at the rate of five ‘cooroos’ or forty ‘pyles’ per mensem. He also receives two rupees for a blanket and a pair of shoes. A few get six ‘cooroos’ a month with the same allowance. Hired labourers, not adults, get three ‘cooroos’ a month with two rupees. In the vicinity of Nagapur and some of the large towns wages are higher sometimes in the proportion of a third.

“ The labour of common farm servants when hired by the day is more expensive than when they are hired for a fixed period; but many persons find it convenient to employ them in this way. Different rates have been introduced for different kinds of work.

“ All kinds of ploughing and sowing when paid by the day are at the rate of two ‘ pyles ’ of grain to the man who holds the plough and one ‘ pylee ’ to the boy who drives the cattle. Reaping, carrying, winnowing the harvest are usually at the same rate. In the rains weeding and all kinds of hired labour are usually paid at the rate of two pice a day although able bodied men sometimes get three.”<sup>10</sup>

An attempt is made below to compare real wages of labour during the closing days of Akbar with those prevailing during the second quarter of the nineteenth Century.

#### **Day Labourer.**

1826: Two and a half pice per day, i.e., 0-1-3 per day (one rupee is equivalent to 32 pice). Converting the wages into food stuffs it would be 7 lbs. of wheat or 8-4 lbs. of jawar or 0-5 lb. of ghee. Taking urban wages as one-third more than rural, the day labourer got about 0-2-0. In food stuffs 11-2 lbs. of wheat or 13-5 lbs. of jawar or 0-8 lb. of ghee.

#### **Towards the close of the Sixteenth Century.**

Two dams daily: 9-25 lbs. of wheat or 11-1 lbs. of jawar or 1-1 lbs. of ghee.

#### **Carpenters and Builders.**

##### *Mistrees.*

1827: Rs. 10-0-0 a month; 0-5-0 daily; in food stuffs: 28 lbs. of wheat or 33-8 lbs. of jawar or 2 lbs. of ghee.

#### **Towards the close of the Sixteenth Century.**

7 dams a day; 32-4 lbs. of wheat or 38-5 lbs. of jawar or 3-85 lbs. of ghee.

##### *Common.*

1827: Rs. 7-0-0 a month; 0-4-0 daily or 22-4 lbs. of wheat or 27 lbs. of jawar or 1-6 lbs. of ghee.

<sup>10</sup> Jenkins, R. Report on the territories of the Raja of Nagpur 1827, p. 125.

### Towards the close of the Sixteenth Century.

5 dams daily: 23 lbs. of wheat or 27.5 lbs. of jawar or 2.7 lbs. of ghee.<sup>11</sup>

A comparison of the figures would suggest that there had not been much change in the real wages of labour. As a matter of fact wages in India have always been at the subsistence level and a comparison of real wages even of distant periods would reveal no material change one way or the other. From the figures it can be hinted that milk and milk products were comparatively dear and the chances of softening their bread by ghee or butter for the lower classes were becoming few and far between. Jenkins observes that the common working classes had only one regular meal a day which was always after sunset, with a slight repast at noon usually consisting of a portion of the stale victuals of the preceding night, and often nothing better than a few handfuls of parched grain or peas. Their usual diet consisted of the meal of jawar and other grains mixed up with bran in equal quantities which, with the addition of a little salt were made into cakes and eaten with red pepper and a small quantity of split peas occasionally. Can anything better be said of even the present day conditions?

There seems to have been some improvement in the conditions in Bengal. Mr. Martin observes before the Committee of 1840: "the rent of land throughout Bengal has augmented by reason of the Permanent Settlement and the value of commodities and the wages of labour have doubled. I investigated in Bengal and found that the commodity of rice for instance had doubled in value in 30 years and the wages of agricultural labour more than doubled."<sup>12</sup>

The dissolution of the higher ranks of society, the exclusion of the natives from positions of rank and honour, the Europeanisation of higher services entailing heavy expenditure to the state,

<sup>11</sup> Prices and wages for the Moghul period are taken from Moreland. Prices and wages for 1827 taken from R. Jenkin's Report.

<sup>12</sup> Select Committee 1840: Martin's evidence vs. 3376 and 3377.

the drain of wealth from the country, the decay of rural institutions and the weakening of the corporate life of the people, the decline of the industries and the consequent change in the nature of the foreign trade of India resulting in the export food stuffs and raw materials in return for manufactured goods, the arrested growth of indigenous banking due to the development of European Banking under Government patronage, the hold of foreign interests in the financial field, the increased pressure on land and the inelasticity of agricultural resources, and above all the dead hand of religion retarding all progress and pressing upon the people to spend inordinate sums on religious occasions and ceremonies all these began to operate as a drag upon the economic progress of the people.

But a beginning was made in various directions to promote the welfare of the people.

They were :

- (a) The recognition of the injustice of excluding Indian from holding any office of trust and responsibility.
- (b) The development of railways and other means of communications; the construction of other public works.
- (c) The development of education.

In the second half of the Nineteenth Century we find a complex of these various forces acting upon each other. With the development of communications, with the spread of education, and with more extended opportunities for employment in the work of administration there grew up public opinion urging the Government to be more liberal in its administration. The extent to which the Government responded depended upon the strength of the public opinion. The formation of a strong public opinion as to be a moral force or sanction behind the popular demand for greater privileges is a matter of time.



## THE THEORY OF INTERNATIONAL TRADE AND RECENT DEVELOPMENTS

BY

GYAN CHAND,

*Professor of Economics, Patna University.*

The classical theory of international trade has, in spite of the criticisms to which it has been subjected from time to time, practically remained intact in the form in which it was left by Ricardo and Mill. Bastable, Marshall and Taussig have, it is true, elaborated and refined certain elements in the theory and applied empirical tests to establish its validity under circumstances which appeared to make the revision of its first principles necessary. The Continental critics, like Cournot, Nogaro and Wieser, have questioned its essentials from various standpoints, and the prestige of the theory among academic circles in France, Germany and Italy has been nothing like what it has been in Great Britain and America; but the theory as the coherent explanation of the forces, which determine the volume and direction of international trade, still holds the field and is the official creed of the economists.

It is not possible in the limited space of this paper to attempt an analysis of the fundamentals of the theory or its re-statement even if that is necessary under the stress of world events which have, as every one knows, been moving with disconcerting rapidity. The theory is an integral part of the whole body of economic doctrines in which the intellectual re-action of the Western thought to the economic changes of the last century and a half has crystallized itself. The theory of international trade being inextricably interwoven with the fabric of economic science, its re-examination involves the necessity of re-thinking out all issues round which the structure of economic thought has been built up. Apart from the limitations of space or individual capacity, that

is a task which, it is evident, requires re-orientation of outlook or a change in the very premises of the argument, and howsoever legitimate or even necessary this change may be, it cannot be effected without postulating the necessity for a new economic philosophy. It is possible to be convinced of this necessity and yet avoid arguing on the assumption that it is imperative in order to keep the speculative element in one's reasoning in check and follow the less controversial path of proceeding from the known to the unknown. I do not, therefore, propose, as I have said above, to re-examine the essentials of the classical theory of inter-national trade or attempt to re-state it in entirely new terms.

There have, however, been happening in the domain of inter-national trade events the significance and effects of which are bound to be profound both for the theory and practice of inter-national trade. Some of these events are merely negative measures which all countries have had to take recourse to owing to the general disorganisation of world economy, while others can be attributed to the working of the forces of economic nationalism; and from the point of view of economic liberalism it is possible to entertain the hope that when some sort of order is evolved out of the existing chaos or economic nationalism has run its course for some time and demonstrated the utter futility of each country seeking a large measure of self-sufficiency in economic life, inter-national trade will once again resume its former course and come under the sway of forces which will point to the return both of normal times and public sanity in the reciprocal dealings of nations.

The facts of the international situation can be cited in support of the view that this hope is illusory and a less optimistic conclusion is more in accord with the reality of the situation. That may be so; and restrictive measures, which have been growing in number and intensity, may lead to further strangulation of world trade, wreck the economic system and together with the destructive forces in the other spheres of national life produce conditions not different from those of the Dark Ages,

Whether we take an optimistic or pessimistic view of the future of international trade and, therefore, of the world, for the former is in the grip of circumstances whose malign effects will far transcend its own limits, it is assumed that the significance of these events is purely negative; and though the anticipations, may be a matter of temperaments or the point of view from which these developments are approached, the so-called trade-barriers are either treated as aberrations of normal conditions, which will produce their own correctives or symptoms of a deep-seated malady which has become incurable and is likely to undermine progressively the very basis of civilized existence. In both cases the view is implicit in these forecasts that we have to reckon with forces which are not constructive in any sense of the word and can be understood only in terms of freedom of trade or its negation.

The dwindling of the volume and value of international trade is undoubtedly, at least in part, the result of the rise of tariffs and various measures which have been taken by Governments either to safeguard the economic position of their people or promote policies dictated by the dominant political creed or exigencies of their political situation. It is well-known that in recent years the measures of administrative control have played a much more important rôle in the regulation of trade than tariff changes, frequent and important as the latter have been, and taken together constitute a much more serious impediment to the unhampered flow of international commerce than tariff changes. These administrative measures bear on their face the stress under which they have been conceived and put into force, and can, therefore, be regarded as emergency devices which rapid changes of prices, onset of the world depression, abandonment of the gold standard and consequent currency warfare and hostile fiscal policies of other countries have forced upon the sorely harassed governments of all countries.

The administrative measures referred to above have taken the form of quantitative restrictions on imports and, in a few cases, on exports. The methods by which this end has been achieved have

varied from country to country, but prohibiting or licensing of imports, fixing of quotas for different countries, exchange control and barter and clearing agreements by which balance of bilateral trade is secured, are measures of administrative protectionism which have generally been adopted. The immediate necessity for adopting them has, in most cases, arisen owing to some compelling exigency of the international situation. Great Britain was forced in 1931 to introduce the quota system and otherwise severely restrict imports to redress the unfavourable balance of trade which was a menace to her financial position; and the exchange control measures adopted by Germany since the depression are the result of her foreign indebtedness and her determination to prevent the repetition of the experience of the inflationary period. The circumstances under which other countries have resorted to restrictive measures have been similarly born of some over-powering necessity and can be regarded merely as expedients for dealing with a situation which appeared and was taken to be full of grave consequences for the economic position of the countries concerned.

The continued adoption of the measures can be accounted for by the prolongation of the situation which gave rise to them. The prices are still low, the exchange rates are subject to sudden and, in some cases, violent fluctuations, currency depreciation as a method of economic recovery and improvement of the competitive position in the world markets is enjoying a wide and long vogue and economic nationalism, as the goal and inspiration of economic measures, is responsible for aggressive commercial policies which produce war mentality in economic spheres and, of course, lead to reprisals which only aggravate the situation. In other words, restrictive measures remain in force owing to the fact that the emergency situation, which rendered their adoption necessary, shows very little, if any, sign of abatement; and though a situation, which prolongs itself over such a long period, loses thereby its emergent character and must be accepted more or less normal, it is plausible, as I have said already, to maintain that the process

of re-adjustment is still in progress and a position of new and stable equilibrium will be, when it is over, eventually though painfully attained.

But it is also possible that these measures may have a positive and constructive aspect of their own and their significance go beyond their immediate intent and bring with it the necessity of taking into account a new purpose at work. We are living in a world in which things seem to be in the saddle and rule mankind. Men are being driven by circumstances outside their control to adopt measures and policies which are only an index of their helplessness in face of a rapidly developing situation or their inability to understand its meaning and re-adjust their course according to it. It would, therefore, be a mistake to read too much in these administrative measures. But necessity is said to be the mother of invention and in view of the admitted need of conscious social control of all economic factors, it is unlikely that these emergency measures may have importance exceeding that which they derive from their being measures of self-defence in circumstances which are distracting in the extreme.

The conscious social control of economic factors is, of course, another phrase for planned economy. If planned economy does, and a growing number of people assure us it has, come to stay, it will require a new technique of organization in every sphere of economic life. Economic planning is a phrase which covers a variety of policies, aims and methods; but whatever form it does take, it will involve the necessity of planned trading. It appears to me that planned trading can be better achieved by administrative rather than tariff regulation. The latter narrows the range within which the competitive forces work and when it is used for fostering the growth of domestic industries, bargaining or retaliation, its stimulating or repressive effect is consciously desired, and if the mark is hit, consciously realised. But the process of re-adjustment, within the more limited range, is worked out through the competitive forces and the motive power of industry and its directing agency remain unchanged. Administrative regulation,

on the other hand, is a direct and effective method, not of shutting out or letting in competition, but of introducing fundamental changes in the economic structure of the country, and in and through its simplicity it seeks to express and realise a new conception of economic and social well-being. The administrative measures are, therefore, likely to occupy, owing to their efficacy, a position of first-rate importance in planned trading as a part of planned economy.

Though the administrative methods have been introduced as restrictive measures and under the pressure of circumstances which ruled out the possibility of a rational choice of aims and methods, they have already been put to uses which suggest their likely line of future developments. In the various bilateral commercial treaties, in "the complementary production" clauses of the Ottawa agreements, in the recently announced "cartellization" of German industry under which the Minister of Economics is to regulate international trade through 24 Control Boards, we have the germs of a future development of very great importance. With war in the air and conflicting policies of most diverse sorts on the horizon of international politics it would be rash to assume that we are proceeding towards a clear and well-marked goal; but as there is a pronounced re-action against the anarchy of competitive forces and co-ordination of economic policies is recognised to be the foremost need of the times, it is perhaps not too much to state that quantitative regulation of trade has not only a negative but also positive significance and can, and probably will, be used as an instrument of economic readjustments conceived and carried out as a part of the process of integration of social economy if the worst fears of competent students of inter-national affairs, which point to the imminence of a world-wide disaster, do not come true.

The above statements are an avowal of belief that planned international trading as a part of planned economy is to be the norm of the future and further that quantitative regulation of trade as a measure for co-ordinating the two can be definitely anticipated. What is the bearing of this anticipation on the

theory of international trade? It is easy to answer the question in the form of a general statement. The theory being a theory of competitive economy, will, with the replacement of the latter by an economic order the essence of which will lie in its concerted social purpose, simply lapse with the whole economic theory owing to its necessary supersession by a complementary theory of planned economy. But it is more difficult to be specific and point out the main elements of the new theory. Some tentative suggestions may, however, be ventured.

It appears that some of the underlying assumptions of the classical theory will be more true of planned trading than of competitive trading. International trade will really become *international*—trade between different nations and without any assumption as to the immobility of labour and capital between different countries. Imports and exports will indicate the relative need and efficiency of the countries concerned much more truly than they do now, though the standard by which the needs and efficiency will be measured will, as stated below, be a different matter altogether. Money will actually become a neutral medium of exchange and not have any disturbing effect on the currents of international trade. Ricardo's theory that the flow of specie tends to eliminate the importance of money as a determinant factor of international trade, though an accepted doctrine of economic theory, has, as students of the subject know, been a fruitful source of confusion and together with the difficulty of establishing a causal relation between prices of traded and domestic goods, which is directly due to different rates at which services are remunerated in different countries, has given to the whole flow-mechanism argument an air of abstraction which, in spite of the valiant efforts of competent exponents of the theory like Taussig to find empirical confirmation of the conclusions of pure theory, has clung to it ever since its exposition by Ricardo and elaboration by Mill. But if trade between different nations becomes a subject of national policy and control each country will buy what it needs and sell what it can conveniently do without and price-

levels and exchange rates will have no bearing on its direction or the terms of international exchange. The assumption that international trade is essentially barter will become valid in a sense in which it has never been before.

The results of planned trading referred to above will flow from the fundamental change which will make national policy and not the action of the individual merchants in their search for private profits arising from the differences in the prices of same goods in different countries, the determinant of the character and the terms of international trade. But a much more important result of the change will, in my opinion, be that the theory of international values based on the theory of comparative costs and equation of international demand will become obsolete. The theory of comparative costs has also suffered owing to the abstract manner in which it has been presented because the units of labour-cost or of "effectiveness of labour," even if the use of capital is allowed for, cannot be defined for practical purposes and money costs, difference between which is the approximate cause of trade between different countries, cannot be taken to bear the same relation to labour costs in all countries. But the substitution of planned economy for competitive economy introduces entirely a new scale of values into the working of economic life which cannot but change the conceptions of labour-costs and elasticity of demand. What the scale of values will be will, of course, depend on the particular ideal of social economy which the countries concerned strive to realise through their "plan," but the extent to which a classless society or a corporative, guild or totalatarian state becomes a reality, to that extent the bearing of labour cost and elasticity of demand on the conditions and terms of international trade will be materially affected. In planned economy cost depends upon the success with which the process of co-ordination or integration is carried out and the completeness with which the economic life is fitted into the whole structure of social life which the authors of the plan try to establish in a country. With the "regimentation" not only of economic processes but the whole

course of social life costs, which are not only a question of the time or quality of work but also of the motives which sustain the worker in production, will have to be interpreted with reference to the changed standards of social life; and as those standards will fix a new order of preference of goods and services, elasticity of demand, depending as it does on the intensity or extensibility of individual wants, will cease to be of any importance in the equation of international demand.

The above argument rests on the obvious assumption that with social solidarity and conscious control of the production, consumption and distribution of goods and services, the whole basis on which supply and demand schedules are drawn, will change and the entire economic life will be governed by conditions of joint supply and joint demand in a sense which will make the allocation of cost and utility on the present basis out of accord with the facts of economic life. In one word, it may be said that if and when planned economy becomes an accomplished fact, the standards of cost and utility and, therefore, basis of supply and demand will be very different and a new approach to the problems of international trade will become necessary.

It may be said that at least in one country planned economy is an accomplished fact and it should be possible to support the conclusions of the preceding paragraphs by facts of its international trade. In Russia trade is a state monopoly, and with the collectivization of industry and agriculture social control of its entire economic life has been fully achieved. Do the facts of its international trade give any support to the above line of argument? The present position of Russia is different from that which would exist when the countries with which it is trading also change over to planned economy of some sort. At present trade agents of Russia deal with individual firms of other countries and we have a case of planned economy in commercial contact with competitive economy in all stages of efficiency, re-adjustment, disintegration and decay. But even then the facts of Russian trade relations, so far as they can be ascertained, show that cen-

tralized socialistic trading is a very different affair from the decentralized individualistic trading.

Russia has no interest in the rate of exchange between her own currency and currencies of the world. She buys what she requires with valuta or purchasing power in foreign currencies made available by selling in foreign markets and by whatever foreign credits she can get. Specie-flow mechanism has been completely put out of action so far as she is concerned and has no function whatsoever as a means of "neutralization" of money as a determinant of international trade. Its purchases of foreign commodities has no relation to the difference between prices in Russia and the countries from whom it buys. Prices which it has to pay for its imports and those which it gets for its exports determine the terms of exchange; and though it, like all agricultural countries, has undoubtedly suffered owing to the greater decline in the level of prices of primary products before and during the period of depression, that is due to the limitations of the economic system of other countries, otherwise Russian trade is barter pure and simple and it is open to Russia to secure immunity from the vagaries of prices in other countries by entering into barter agreements with them.

Russia's choice of exports and imports is determined not by comparative costs or elasticity of demand but by the working of her entire social economy. It exports wheat, oil, furs, timber, dairy products and other raw materials not merely because it has advantage, relative or absolute, in their production but because those are the commodities it is prepared to part with as a result of deliberate policy which has as its object the phenomenal industrialization of Russia and its import of machinery is, of course, determined by the same fact. If it chooses to sell its exports cheap, it is not because they are the product of sweated labour but because it can, owing to the integrity of its whole system of production, treat all costs as joint and distribute them over different products according to the exigencies of social economy. The cry that Russia is "dumping" and the preventive measures against it

are partly due to prejudices against communism and partly to the application of ideas which are inapplicable to the socialized economic life of Russia. The standard of costs and needs under planned economy must, as stated above, be different from the standards with reference to which the theory of comparative costs has been worked out and the latter, therefore, must be regarded not as unsound but obsolete owing to the introduction of planned economy. And it may also be stated that Russia cannot possibly have any use for tariff regulation. Its method of control is direct and in its directness effective. It either imports or it does not and the quantity imported is not a function of price but an incident of the working of its controlled and managed economy.

The Russian planned economy has its own distinctive features, but international trading under any system of planned economy is likely to be governed by similar factors. What about the future? That will, of course, depend upon the final upshot of the conflict of forces that are at work. At present it seems more convincing to maintain that the world is heading for a disaster than that it is making for planned economy. But even if the world does survive the conflicts that are in progress and successfully solve the stupendous problems of organization under planned economy, it will have to face the rival planned economies which are all already arrayed against one another and which will emerge more clearly from the *mêlée* that is impending. A new world order must be based on unity in essentials and that means one planned economy—one of those that are already in the field or some new one must triumph over the others before we reach a position of stable equilibrium. That, to say the least, is a question of time. Whatever happens during the interval is a matter for interesting speculation, but whatever does happen our neat and elegant theory of inter-national trade will even if it was ever true of life, become increasingly anachronistic and have to be finally put away for lack of supporting data. The equations  $10x=15y$  and  $10x=20y$ , which have stood a great deal of wear in the class rooms and examination answer-books, must be

regarded as a casualty among the numerous other casualties of the strange and bewildering times in which we are living. Even the part of the theory, which the equations are meant to illustrate, is somewhat doubtful; but it is absolutely clear that it has no future.

# THE THEORY AND PROBLEMS OF INTERNATIONAL TRADE

BY

B. K. MADAN, M.A.,  
*Lahore.*

At a time when international trade has been reduced to a mere fraction of what it was only five years ago and when commercial policy is everywhere receiving a new orientation, the theory and problems of international trade naturally assume special importance.

## I. THEORY OF INTERNATIONAL TRADE

### **The Classical Doctrine.**

The classical doctrine of international trade regarded it simply as the international form of the division of labour. Adam Smith treated of it merely as the extension of the principle of territorial specialization to the whole world irrespective of national boundaries. International trade being thus the outcome of territorial division of labour, the advantages to be derived from it are also similar and essentially identical with those of the latter.

International trade being thus regarded, the guide for the distribution of economic activities is the principle of relative advantage or the theory of comparative costs, the foundation of the doctrine so ably expounded by Ricardo, restated with modification by Mill, and presented in its modern garb, shorn of its ancient trappings, but with none of the characteristic rigidity of its form, by Prof. Bertil Ohlin in his latest work *International and Inter-regional Trade*.

Simply stated, the principle avers that each country would devote its limited supply of productive factors in lines in which it had the greatest comparative advantage or the least relative disadvantage and import in exchange for these products other goods

in the production of which it enjoyed the least relative advantage or suffered under the greatest comparative disadvantage. Such distribution of economic activities in accordance with the principle of relative advantage would enable the sum total of wealth produced in the world as a whole to be maximised. The policy of free trade with its maxim that international trade should be left free and unhampered, followed as a natural and logical corollary from its beneficial nature, understood as the maximisation of the world's wealth.

#### **Basic Assumptions.**

But the basic postulate necessary to the truth of the classical doctrine was a number of free individuals directing their energies and resources into the most profitable occupations for themselves and symbolising the free competitive play of economic forces within the limits of an international unit. Freedom of trade *between* nations from regulation by the state had thus its necessary complement in the freedom of economic activities *within* any state from interference by the state authorities. The concept of enlightened self-interest underlay this free pursuit of individual gain and brought it into accord with the general good.

The classical *doctrine* of international trade, the basis of the orthodox practical *policy* of free trade, thus depended for its truth on a number of distinct yet closely inter-related hypotheses.

Under the influence of the theory a special type of territorial specialization developed. The world was split up broadly into two classes of countries—the one mainly manufacturing and the other producing food-stuffs and raw materials. Manufacturing industry was concentrated in the small portion of the globe covering Great Britain and to a lesser extent western Europe and a dense population dependent on such industrial activity was sustained by the supply of agricultural products from the countries of other continents and the tropics. The character and the course of international trade were largely regulated by the fundamental

nature of this division of economic activity as between the distinctly manufacturing and agricultural regions of the world.

#### Modification of Basic Assumptions.

As the nineteenth century wore on, however, the basic assumptions of the old *doctrine* and the orthodox *policy* resting upon it as well as the old world *order* ceased to hold with equal force. The assumption of a free individual working under conditions of a world economic order who was perhaps a real figure about the middle of the last century in the heyday of *laissez faire* fell out of accord with the rapid movement of events. Governments everywhere were intervening to an increasing extent and in an increasing variety of ways in the domain of economic life—regularising and canalising the operation of economic tendencies with a view not to the attainment of any such abstract end as the maximum sum total of the world's wealth,<sup>1</sup> but the much more real and to them more practical object of the greatest *national* welfare. In other words, as the State assumed an increasingly important rôle as an *instrument* of economic activity, the *end* governing the employment of productive resources and energies also began to be tempered by considerations of national interest as apart from mere individual profit.

The essential nature of this change in the closely inter-related hypotheses alike of the old *theory*, the old *policy* and the old economic *order* may be best characterised as an increasing regulation of the internal economic lives of states following upon a shift of emphasis from the individual unit and the world unit on two extremes to the intermediate national unit, both as a *means* and *end* of economic action.

<sup>1</sup> Economic nationalism, routed by Adam Smith in his classical attack on the Mercantilists, began once more to raise its head. It was to be no part of German or American policy to maximise the world's wealth, if the benefits were to be concentrated in the hands of Great Britain. G. D. H. Cole in *Britain's Industry and Trade—Past and Present*.

Regulation of internal economic life has, however, increased otherwise than through an extension of the economic functions of the state in a wide variety of ways. How precisely has the working of the theory of international trade been affected, and the trend of practical commercial policy been modified by the altered setting of circumstances in which both must take shape? Successful regulation of national economic systems by state policy implies and necessitates at least some measure of freedom from the unwanted disturbances of the outside world, which however can only be secured by assuming control of the points of contact of the national economy with the economies of other countries—by limiting the free working of international trade. The regulation of the flow of international trade may be regarded accordingly as a necessary consequence or even an essential preliminary to this regulation of domestic production. The growth of tariffs and protection was thus bound up with the growth of the spirit of interventionism and with the passing away of *laissez faire*.

#### **The Term 'Relative Advantages.'**

This former development and the change in the character and distribution of economic activities throughout the world which was bound up with it, were greatly facilitated by a fuller realization of the meaning and implications of the theory of relative advantages, which formed the basis of the old world division of labour.

The term 'relative advantages' broadly comprehends both 'Natural' and 'Artificial' advantages. Natural advantages in the field of industrial competition mainly include an abundance of natural resources or materials for manufacturing industries as well as proximity and easy access to the markets for the products of such industries. The characteristic mark of such advantages is that they are not easily 'transferable.' Apart from these are such advantages as those of traditional skill, of a widely diffused knowledge of technique, of well-established business connections, of good will and high credit which may be termed artificial in the

sense of being more easily 'transferable,' and capable of being more easily acquired. The distinction between the two types of advantages, natural and artificial, is thus found to hinge chiefly upon the comparative degree of their 'transferability.' For full industrial development both the types are essential. Hitherto, however, until the later or closing years of the nineteenth century, countries possessing the latter or artificial type of advantages had had easy access to the natural or non-transferable sources of industrial activity. They had managed without much difficulty to gain and maintain contact with the sources of materials and the markets for their goods.

Recently, however, obstacles have been interposed in the way of such access by the rising protectionist ambitions of increasingly conscious nationalities (part consequence of a keener appreciation on their part of the potential importance of such natural advantages for their own industrial development).

While what have been termed the natural or 'non-transferable factors' are thus revealing their essential immobility, the artificial 'transferable factors' are in turn becoming ever more mobile. The advantages which they are understood to comprehend are becoming more and more generalised and the common possession of the industrially civilized world. The two types of factors are setting down in a more permanent and properly evaluated relationship as causes of the location of industry.

#### **Significance of Economic Nationalism.**

This would appear to be the great significance of the economic nationalism of such vast countries as America, Russia, Canada and a justifiable basis for a policy of economic nationalism on the part of a country like India. This again appears to account for the present day decentralisation of industrial activity from the old manufacturing areas of the U. K. and western Europe to the newer and hitherto backward regions such as Japan, China and India. Important developments have thus taken place and are still going on in the economic structure of the world and the

economic inter-relationship of different continents which might be regarded as perfectly normal or natural or at any rate inevitable in the long run, and not very undesirable from the point of view of the world as a whole. For industrial development not in a single country but in a number of countries is likely ultimately to increase the wealth of the world.

#### Character of International Trade.

Simultaneously with this vast transformation in the distribution of industrial activity in the world, there has come about a change in the character and the composition of international trade. Commerce between nations which had for long been mainly complementary—the exchange of raw products for manufactured goods—has naturally tended ever more to become a specialised interchange of a growing variety of manufactured products.

How the character and organisation of the *superstructure of trade* is in large measure conditioned and reacted upon by the nature of the *industrial substructure* on which it rests is strikingly brought out by certain other important recent developments in industry which have been accompanied by equally remarkable changes in the character and organisation of international trade. One such development is the increasingly secondary nature of demand for goods including those which form the objects of international commerce. The peculiar danger of this increasingly secondary or optional nature of demand is its natural fluidity or mobility and a greater instability than in the case of primary demand. To this danger the rapidly changing technique of production adds another and the leaders of business seek to contend against both by control of output, fixation of price and reservation or allocation of markets by one means or another—mergers, associations, cartels, more or less precise agreements or understandings—all in the ultimate analysis, however, attempts at imparting an element of stability to essentially unstable business conditions; all alike helping in the evolution of economy with more of planning and control and less of competition between pro-

ducers of similar articles (though the competition becomes intenser between giant suppliers of alternative and substitutable articles for similar purposes).

## II. PROBLEMS OF INTERNATIONAL TRADE

The movement of goods from country to country and the flow of international trade are also regulated by business arrangements of this nature: economic nationalism in seeking to counteract and circumvent the internationalism of business organisations presents international trade with increasingly difficult problems in the form of higher tariffs, more complex and elaborate tariffs, and less stable tariffs.

### Volume of International Trade.

Until the war, however, the increasing restriction of international trade resulting from these developments did not check the continued increase of trade that had been going on throughout the nineteenth and the beginning of twentieth centuries. In tracing the development of the theory of international trade one is apt to regard the whole of the latter part of the nineteenth century and a third of the twentieth century that has elapsed as a period characterised by a gathering 'protestant' or protectionist movement against the 'Catholic' free trade preaching of Adam Smith and his orthodox followers of the classical school. Alike the development of thought and the trend of practical policy during this period appear to lend colour to this view. It must not be forgotten, however, that during all this period international interdependence was continuously on the increase. International trade which is one aspect of this inter-dependence was growing both in volume and in the variety of the goods covered; the net work of international financial relations (private as well as international) was becoming ever more ramified: in short, the points of contact between the nations of the world were rapidly multiplying. Particularly noticeable is the enormous scale on which capital and labour moved long distances to people and equip new lands with

weapons for the development of their vast wealth of natural resources. The significance of these large scale operations is fully revealed when it is clearly realised that such movements of the factors of production are but an alternative for the movement of goods.<sup>2</sup> Again international trade in services has been increasing relatively to the trade in actual merchandise<sup>3</sup>—an approximate measure of this change being furnished by an examination of the growing margin between the figures of visible exports and imports of different countries.

Even the ultimate effect of such a change in the character of international trade as has been remarked above need not necessarily be a lessening of its volume (though this possibility is not altogether precluded). An extension of its volume is, on the contrary, a theoretical possibility (though by no means a certainty).<sup>4</sup>

<sup>2</sup> In fact, international trade depends upon the uneven distribution of the productive factors and therefore the movement of goods is in a sense a substitute for the re-distribution of the factors.

<sup>3</sup> This is however an aspect of the change in the character of demand which is a feature of common observation in the transformation of the internal industrial structure of many countries.

<sup>4</sup> "Gruntzel describes the effect of protection and industrialisation on world economic relation thus : In the place of the international division of labour between agriculture and manufactures, assumed by classical economics, a division of labour within the sphere of manufacturing appears. If now the development of the productive capacity of a country leads to industrialisation and if industrialisation increases the participation of a country in world economic dealings it follows that the protective policy, as an important aid to industrialisation must under proper manipulation lead to an extension of economic dealings." *Economic Protectionism*, p. 342. A similar view on this question is that the more varied are the wants which man is in a position to indulge, the greater is the scope for international specialisation and hence the volume of trade is also likely to be greater. As Arthur Loveday expresses it : " International trade becomes more and more imperative as income increases. The great commercial nations are not only rich because they trade, they trade because they are rich." The correctness of this view either is not, however, altogether certain. In fact the ultimate effect is not theoretically calculable and would in any case depend upon the precise nature and extent of the change in the character of international trade from which it results.

**Great Reduction in Volume: The Problem.**

The longer views apart, however, the immediate outlook is a reduction of international trade to ridiculously low levels compared with what it was only a few years ago, and the urgent and imperative problem is that of loosening the tangled network of defensive measures set up on the border of every country to strangle international trade.

**Causes of Decline in Trade.**

The recent developments which have led to the enormous shrinkage of international trade have been the indirect impediment of high tariff rates supplemented by the direct restrictions on the import of commodities by prohibitions, quotas, contingents, clearance and compensation agreements, licenses and similar devices as well as by restriction over the means of paying for commodities in the form of foreign exchange control, and the depreciation of the currencies involving departure from the gold standard. The technique of the twentieth century in the matter of control of trade has almost reached perfection and we have learnt to lock, bolt and hermetically seal the door by powerfully effective devices. While, however, some of the causes contributing to the movement of progressive shrinkage of trade are incidents of the present economic and monetary crisis—the enduring factor behind the new protectionism which appears to stand prominently out of the welter and confusion of the post-war years, is not the mere attempt of a frightened and panic-stricken world to safeguard itself against the perils of international price instability and currency chaos—but the still fresh memory of war and the ever-present threat that the world may any moment be plunged in a similar conflict disturbing again the normal economic inter-relationships between nations. No reversion of this post-war trend is likely until the constant dread of war is averted and there is some assurance of lasting peace, for it is on the basis of such assurance alone that a flourishing fabric of international trade can be built.

The movement toward self-sufficiency and economic independence has been highly contagious. The infection has spread alike to large states possessing the natural resources and other basic equipment for a more or less self-contained existence, and the new diminutive states with lop-sided economies, whose development was essentially complementary to the economy or economies of one or more contiguous states. The general feeling of political and economic insecurity and doubt has been the enduring heritage of the war fostering this powerful tendency: "Each nation endeavoured to establish within its own boundaries a microcosm in imitation of the macrocosm which was constituted by Europe as a whole a decade earlier . . . From external risks individual states sought safety for a time by rendering themselves, in so far as possible, self-sufficient and insulated."<sup>5</sup>

#### **The Crux of the Dilemma, the Central Problem of Commercial Policy.**

The crux of the dilemma of international trade then lies in a conflict of two opposing tendencies, both of which have been carried to unprecedented extremes on the one hand, a growing net work of international financial relations and the enormous burden of international governmental and private debt which looks logically towards a freer movement of goods; and on the other hand the directly contrary trend of actual events. The *motive* of this actual trend affords the clue to the closely allied central problem of commercial policy in the post-war world which awaits solution: the imperative need of harmonising some measure of stability of economic and social organisation (which implies regulation of international trade) with the urgent necessity of securing and maintaining the undoubted advantages of specialisation based on the doctrine of the territorial division of labour as well as preserving the already intricate net work of international finance

(which implies the restoration of a much greater measure of freedom to international trade than it enjoys at present).

A *via media* must perforce be sought if the dire consequences of either extreme of complete isolation or unlimited competition are to be avoided. It is idle to hope that the state of affairs in which the economy of a particular country was freely dovetailed in its various aspects with the economies of several others can return in its old form in the near foreseeable future. On the other hand, the advantages of division of labour do not belong to any particular epoch of economic history in the past. They persist. The pattern of world specialisation may be rearranged—the economic structure of agricultural countries may be more and more industrialised, and industrial countries may push forward the process of agricultural development within their borders,—the essential kernel of truth in the classical doctrine remains nevertheless, unaffected. It outlasts all these vast transformations. The form of international division of labour may undergo a radical change, the character and the composition of international trade may be greatly altered, the mechanism of the working of specialization may be vastly modified, international trade may cease to be carried on by a number of free individuals jostling one another in unlimited competition and rivalry and reduced to an organised system of interchange of goods and services between planned national units—nevertheless, the benefits of the distribution of economic activities among different territorial units according to their several equipment will remain.

#### Attempted Solutions of the Problem.

Hence it is that the aspect of the central problem of commercial policy above indicated which claims immediate and urgent attention is that of reducing the restrictions on international trade. This end is sought to be attained in several ways. Regulation and control of international trade is necessarily common to all these ways,—which may be classified into three rather well defined policies in operation of three distinct schools of thought in respect

of such regulation by modern government of trade between nations. The three schools may be called the school of equality of treatment, usually known as the most favoured nation policy, the school of special bargaining, which tries to gain trade opportunities by buying and selling concessions or special privileges to other nations by bilateral compacts, and the school of group or areal agreements which tries to get outlets for trade by joining with several other nations in a regional or multilateral compact for lower national barriers. These three plans, the equality practice, the special bargaining policy, and the multiple regional scheme represent the real thought and practice of the world to-day—and through all of them the different nations struggle to reduce the barriers on their trade with an eye to the opportunities of their own people.

It is the policy of the group or areal agreements, however, (illustrated by the Ouchy agreement between Netherlands, Belgium and Luxembourg, by which the three countries agreed to reduce their tariffs as against each other, 10 per cent each year for five years or 50 per cent in all and offered the benefits and obligations of the agreement to any other nation that cared to adhere) which by the growth of relatively free custom areas provides the most promising prospect of an opening through the present unpromising situation for international trade.<sup>6</sup>

While this is the most desirable line of development under the present circumstances it is unfortunately not the most general direction in which policy is moving. The common and widespread, almost universal, form in which the present marked tendency towards planned or regulated trade is manifesting itself is by means of an elaborate network of negotiated bilateral treaties which include not only tariff rates, but quotas and other forms of

<sup>6</sup> The British Empire agreements are not representative of this type of arrangement, except as they show a tendency to breaking the deadlock by grouping. For while trade may have been rendered freer to some extent as between the members of the Commonwealth, newer and higher tariff barriers are erected against the rest of the world.

quantitative regulation, private commercial agreements and even financial provisions. Their characteristic feature is a very careful balancing of concessions on both sides with minutely calculated exchanges of various kinds of goods against each other.

No doubt the scope of such treaties is so strictly circumscribed and they are so full of conditions that their results must fall short of the freer arrangements of earlier days, for many of the most sound and profitable trading relationships are multi-cornered. Nevertheless, limited treaties of this kind appear to be for the time being, the only way of overcoming the many barriers to international trade. Attempts at a "broad solution by concerted action along the whole front" having failed to produce tangible results at the World Economic Conference, autarchic developments have received a distinct stimulus in almost every country, and each country has to flounder its own way through the tangle of trade complications as best as its circumstances and conditions permit.

### III. THE PROBLEM OF FOREIGN TRADE AND COMMERCIAL POLICY IN INDIA

After this rather comprehensive survey of the important developments in the theoretical bases and practical problems of international trade we are in a position to ask what bearing they have on the present and prospective commercial policy and practice of trade of our own country.

Planned and regulated trade has been advocated in the case of India as in that of every other country as the only way of opening out additional avenues for the greatly shrunken volume of trade. It is argued that at a time such as the present when international efforts at promoting recovery have failed, it is 'a prudent policy of insurance' to seek to foster our export trade by agreements with our principal customers for the purpose of placing our trading relations with them on a firm and assured basis. We shall find

ourselves in good company. England and the United States have also admitted trade bargaining as an integral part of their commercial policy. In particular, it is argued, we should try to secure entry on advantageous terms into the United Kingdom market which besides being our most important market is also expanding relatively to others. This latter step may involve entering into closer economic relations with our chief customer which is also the principal supplier of our requirements, and we should seek in the interests of business stability in the midst of a highly unstable economic situation to foster such closer relations. Such arguments are plausible but more critical examination reveals certain lacunae and flaws in them and advises more guarded and cautious statement.

#### **Definition of Objectives.**

A factor of supreme importance in determining the success or the failure of the new policy alike in England, America, and our own country or for the matter of that any other country is an adequate definition of objectives. Tariff bargains must be articulated in a more comprehensive economic programme, the parts of which are appropriately inter-related. The new trade policy must be organically inter-woven as a vital and harmonious part of national economic policy as a whole. The fact of such close inter-relationship and the necessity of securing such harmony has been clearly realized alike in America and in England.

John H. Williams in an address<sup>7</sup> on "The United States Tariff and our International Financial Position" before the Royal Academy of Political Science of the Columbia University thus stated the practical difficulties in the way of the encouragement of exports by the new policy of mutual tariff reduction: "the only way we can maintain and increase our present exports is by increasing imports of manufactured goods which will in the main directly compete with the established home industries.

<sup>7</sup> Vide Half Yearly Proceedings of the Academy of Political Science of the Columbia University, October, 1933.

Shall we gain by shifting social groups now surrounding these industries into other areas and other industries whose exports may grow? Even with our relatively mobile labour such a policy will add social strains which may overwhelm us." He advocates for the United States a policy of increasing self-sufficiency based on a three-fold programme of reducing the surplus of farm products in excess of domestic consumption and available for export, a continuance of the protective tariff schedule on foreign farm products, and the maintenance of a high industrial schedule. Prof. Edmund E. Day also lays his finger with unerring precision on the crucial point which will play an important part in the new policy—the willingness and ability of government to make genuine concessions "Sooner or later in the bargaining programme, the government will have to face the fact, plain and unvarnished that concessions cannot be made without injecting material foreign competition into certain sections of the domestic market." So that the bearing of the new policy of gaining fresh avenues for export trade in the programme of economic and industrial development at home must be clearly grasped and frankly faced before pronouncing upon its merits. *The lesson is important for India.*

Similarly in England, the F. B. I. observe in their latest statement on the result of Britain's recent commercial policy that if the policy of trade agreements is to meet with success, "real co-ordination between the industrial policy and the agricultural policy of this country is vital." They lay it down that a balance will have to be struck between the extent to which the country is to be made self-supporting in agricultural production and the extent to which the export trade is to be stimulated by means of agreements designed to facilitate the export of British products in exchange for imported food and raw materials. It is clearly realized that "the different parts of our national policy have in large measure been developed independently of one another with the result that in certain directions they have tended to come in conflict."<sup>8</sup>

<sup>8</sup> "Industry or Agriculture"—*Economist*, June 23, 1934.

The inevitable conflict between a policy of finding assured outlets for the agricultural products of India by offering entry on special concessional terms to the manufactured imports of particular countries into the Indian market, and a policy of stimulating the process of industrial development at home should be no less clear. It appears, however, that those entrusted with the direction of the economic policy of this country have rather too lightly slurred over this aspect of the matter. They would seem to have been going ahead clearing out the channels of Imperial trade without any clear conception as to the relations of a commercial policy to which they are committing the country with our generally and insistently advocated goal of full industrial development. A careful co-ordination of an agricultural *cum* commercial and an industrial policy as inter-related parts of a single whole is as vital to the success of either in India as in America, or as a real co-ordination of an industrial *cum* trade policy and a policy of rapid agricultural development at home is necessary in England. The fundamental drawback in our situation has, however, hitherto, been the paucity of serious and consistent thinking as to ends or means in the case of these different policies or parts of national economic policy.

#### **Our Commercial Policy and National Planning.**

We have set our foot on the path of planned and regulated trade, yet in the very act of doing so have exhibited our lack of planning, thought and organisation. Pronouncements of statesman both at the Imperial Economic Conference when the present arrangements were concluded and since repeatedly emphasize that Ottawa has made a beginning, that though the immediate fruits of Ottawa may not be very satisfactory, the triumph of Ottawa, nevertheless, lies less in its achievement than in its promise. It is on that promise that the hopes of those who have been disillusioned by actual results are fixed, yet it is the prospects of that promise that are not quite reassuring for our fears. At Ottawa we made a beginning, we entered upon a new path, we made an

important fresh departure in our economic policy. Are we clear in our minds as to where that beginning ends, or that new path leads, or that departure terminates. If we are not clear about that we are not planning in the true sense, or we are 'planning' our trade in an unplanned economic system—a travesty of the term in its real comprehensive sense!

What is "economic planning"? National economic planning to put it in general terms, means or should mean (in the case of India) in the *first* place an intelligent survey of the economic resources of the country, actual and potential,—our resources broadly of agricultural and forest and mineral products; of labour and of capital; of industrial ability and skill; of knowledge of technique and capacity for different types of organization and enterprise: of the state of our agriculture, our handicrafts and large-scale industries, their methods and their organisation: *secondly*, an intelligent definition of the broad lines of profitable development, as well as intelligent direction along those lines. National planning implies the prescription of a periodical end for our economic policy and postulates further the provision of some machinery for the attainment of that end.

Whatever the goal of economic policy defined from time to time, there is an imperative need for the creation of a body which should be in a position to view the economic policy of the country as a whole, not only the broad lines and general trend of such policy, but the natural inter-relations of its parts, so as to be able to harmonise the incipient development of any mutual conflict of their interests and counteract any tendency seriously to diverge or pull apart from one another.

Thus Sir A. Salter in his scheme of an Economic Advisory Organisation in India: "A careful plan, therefore, based upon India's resources and opportunities, which would forecast India's natural development of industries in an order of priority, and in doing so indicate the directions in which such benefits as state encouragement can give would be more lasting and the losses it involves least serious, would obviously be of the greatest value."

Again he draws attention to the “ drawing up in main outline a general plan of India's economic and industrial development in the next few decades, as some guide to the direction of state policy ” as a possible instance of a problem requiring investigation of an extensive nature, and his scheme of an Economic Advisory Organisation is an attempt at providing a body which may be instrumental to this end.

#### Fundamental Considerations in Indian Commercial Policy.

For one thing it needs to be clearly realised that for India the problem of her foreign trade is inextricably interwoven with and part and parcel of the more general problem of her economic and industrial development and can be viewed in the right perspective only as such. When it is thus regarded, however, one or two considerations inevitably suggest themselves to any careful student of one of our central economic problems.

A vast sub-continent, with the abundance and the richness of resources of which India happens to be the fortunate heir, a population one-fifth of the world, and a supply of cheap and plentiful labour lacking no doubt in skill and mastery of modern technique, but with a tradition of industry, capable of acquiring access to the artificial and ‘ transferable ’ sources of industrial activity—is a *sufficiently broad base upon which to rest a fiscal policy* directed to fostering and promoting the interests of this vast entity. It may be quite improper, even harmful, to the interests of a small state with limited resources of nature and man, and a restricted market, and even positively mischievous from the point of view of the interests of its neighbours, to seek to build a more or less self-contained system and reduce the dimensions or widen the distance between its points of contact with the economic life of the rest of the world. This latter course, on the contrary, may be highly desirable and even essential in the case of a country like India, particularly if it embarks definitely upon a policy of national economic planning. Even so, it is not international economic co-operation to which we object. India may, to the common benefit of herself and the

world, constitute a *unit* in international economic co-operation. That is precisely our contention:—The volume, character and range of our resources are of such a nature that *India can very appropriately form a unit* in world co-operation. She is not so peculiarly adapted as some other countries or communities may be for complementary development in *juxta-position* with other economic groups. The objection therefore lies against distorting the trend of India's economic development so as to render ever remoter the prospect of her attaining the full maturity of her economic powers. And distortion, it is feared, will result from attempts at finding a solution of India's problems of foreign trade and commercial policy on such lines as those embodied in general schemes of 'Imperial economic or industrial co-operation' and 'reciprocal trade within the Empire.'

It is particularly important from India's point of view in the progress along planned and regulated lines of her economic and industrial development as well as her foreign trade to seek a proper articulation of the relationship of such a process to such schemes embodying the general idea of Imperial planning. Such relationship cannot be vital or organic; it may be fortuitous or accidental, and defined in harmony with her own interests.



## SOME ASPECTS OF INTER-PROVINCIAL MIGRATION IN INDIA WITH SPECIAL REFERENCE TO BENGAL.

BY

D. N. BANERJEE,

*Reader and Head of the Department of Economics and  
Politics, Dacca University.*

The object of this paper is to consider some aspects of the inter-provincial movement of population in India with special reference to Bengal. It is based upon the Census<sup>1</sup> of India, 1931, and its scope is confined mainly to Assam, Bengal, Bihar and Orissa, the United Provinces, and Madras, in order that it may not be unduly long.

### II

Economic nationalism which has proved to be an almost insurmountable obstacle in the way of the revival of the economic prosperity of the world, is rightly regarded by many thinkers to-day as a great menace to the progress of human civilization. It is responsible for the practical failure of two World Economic Conferences. It is also largely responsible for the existing

<sup>1</sup> I have separately consulted the Census Reports dealing with India, Assam, Bengal, Bihar and Orissa, the United Provinces, the Central Provinces, Bombay, the Punjab and Madras in connexion with this article.

hindrances to international movement of commodities. For instance, the ever-increasing tendency to-day to the heightening of tariff walls on the part of various countries is to be mainly traced to its baneful influence.

Now if this principle of economic nationalism is an obstacle in the way of the growth of a sense of international brotherhood, and of a feeling of mutual dependence and co-operation amongst various nations for the good of humanity, and if its probable, ultimate effect is the danger of the disintegration of the world into so many jarring and conflicting units, suspicious of, and hostile towards, one another, like Hobbes's men in his state of nature, the growing feeling of *economic provincialism* in our country is likely to prove, unless checked in time, a greater menace to the development of the sense of nationhood in India, and will certainly act as a powerful decisive influence in our national life, neutralizing, to a large extent, those factors which have been for the last few decades working towards the formation of an Indian nation. Even Bengal which has always kept its door open to the people of other provinces in India, has to-day begun the cry "Bengal for Bengalis" in, to quote the words of Mr. A. E. Porter,<sup>2</sup> its Census Superintendent, 'antiphony to the similar protests raised in other provinces against the Bengali.'

I shall make an attempt to show in this article, from the statistics of inter-provincial migration alone, how economically the provinces of British India . . . I might as well say, the different administrative units in India as a whole . . . are interdependent, and why their growing feeling of economic provincialism should be destroyed in its incipient stage, particularly in view of the fact that the unitary constitution of our country is going to be replaced by a federal constitution, in order that India might develop into a united and strong nation, both economically and politically.

<sup>2</sup> The Bengal Census Report, Part I p. 91.

## III

As the different Census Superintendents have observed, it is usual to distinguish the following five different types of migration<sup>3</sup> in our Census Reports:—

(a) **Casual** Migration.—This involves ‘minor movements between neighbouring villages, largely by way of marriage.’

(b) **Temporary** Migration.—This is mainly due to ‘journeys on business, visits to fairs and places of pilgrimage, the temporary demand for labour (necessitated by the construction of new roads, buildings, railways or irrigation works, etc.), and the temporary displacement of population caused by out-breaks of plague and other diseases in a particular area or the prevalence of scarcity or distress for a limited period.’

(c) **Periodic** Migration.—This is generally caused ‘by recurring seasonal demands, during the busy harvest seasons.’

(d) **Semi-permanent** Migration.—This applies to persons ‘who maintain their connection with their pre-migration homes, earning their living elsewhere but ultimately returning and often leaving their wives and families at home during the period of migration.’

(e) **Permanent** Migration.—This occurs when a migrant ‘leaves one place to settle in another for good.’

Dr. Hutton<sup>4</sup> has also mentioned an additional form of migration, namely, daily migration.

Daily or casual migration is not of much importance in connection with the question under our consideration, although it must be admitted that it is very difficult for Census Returns to differentiate between different types of migration. It may also be noted here that periodic migration, as the Census Superintendent of Bihar and Orissa has pointed out,<sup>5</sup> often tends to become semi-permanent and semi-permanent migration to become permanent.

<sup>3</sup> For instance, see the Census of India, 1931, Vol. 1, Part I, pp. 62-63.; also Vol. VII, Part I, pp. 108-4.

<sup>4</sup> Census Commissioner for India (1931)

<sup>5</sup> B. & O. Census Report, p. 104.

Apart from the minor movements of population, the main emigration currents<sup>6</sup> within India have so far flowed in the directions indicated below:—

(a) Migration from Assam, Bihar and Orissa, the Central Provinces, Madras, the Punjab, Rajputana Agency and the United Provinces into Bengal.

(b) Migration from Bengal, Bihar and Orissa, the Central Provinces, Madras and the United Provinces into Assam.

(c) Migration from Baroda, Hyderabad, (Portuguese India), Ajmere-Merwara, Baluchistan, the Central Provinces, Madras, the Punjab, and the United Provinces into Bombay.

(d) Migration from Madras, Bengal and the United Provinces into Burma.

(e) Migration from the United Provinces, the Central India Agency, Bombay and the Hyderabad State into the Central Provinces and Berar.

Factors which cause emigration are, as the Census Superintendent of Madras has stated,<sup>7</sup> many and varied. Briefly speaking, they are unemployment, poor seasons, pressure upon the land, the proximity of prominent trade routes or ports, and sometimes a spirit of adventure on the part of emigrants. Referring to the case of Madras in particular, the Census Superintendent writes that it is probable that a continuing proportion of emigration is due to a desire to escape from restrictions suffered in the homeland by the depressed classes who form the great bulk of Madrasi emigrants. Emigration, he continues, “is a great teacher of self-respect, for caste is to a large extent put away when the Indian emigrant crosses the sea. To this extent and to the existence of

<sup>6</sup> Immigrants from Nepal have not been taken into account. There were in 1931, 259801 persons from Nepal in Bengal alone. Vide the relevant Chapters of the Census Reports of Madras, Bengal, Assam, Bombay, Bihar and Orissa, the United Provinces and the Central Provinces and Berar.

Vide also P. K. Wattal, *The Population Problem in India*, 1934, p. 125.

<sup>7</sup> Vide the Madras Census Report, p. 79 & p. 93.

an undoubtedly emigration tradition, the drain to Ceylon, Malaya and Burma need not be considered an indication of saturation."

#### IV

The following figures<sup>8</sup> indicate variations as compared with 1921 in the volume of migration as between the provinces mentioned below:—

		1931.		1921.	
		Immigrants.	Emigrants.	Immigrants.	Emigrants
Assam ..	..	13,14,047	73,036	12,16,661	75,909
Bengal ..	..	17,26,370	9,54,434	18,17,775	6,85,581
Bihar & Orissa ..	..	4,66,563	17,58,130	3,87,068	19,55,036
Bombay ..	..	11,88,901	5,92,194	10,39,622	5,67,599
Burma ..	..	6,17,521	24,197	5,72,530	19,059
Central Provinces &					
Berar ..	..	6,49,064	4,22,061	6,03,924	4,06,601
Madras ..	..	2,46,892	11,35,231	1,96,609	9,14,792
Punjab*	..	6,35,025	7,02,817	5,91,885	5,30,912
United Provinces ..	..	4,94,308	15,57,451	4,25,152	13,99,791

#### Bihar and Orissa.

It will be clear from the above figures that Bihar and Orissa has higher emigration figures than any other province in India. In 1921 the number of immigrants in it was 387068 and that of emigrants from it was 1955036.<sup>9</sup> The corresponding numbers in 1931 were 466563 and 1758130.<sup>10</sup> Thus although there was as compared with 1921, a rise in the number of its immigrants and a fall in the number of its emigrants in 1931, yet the number of its emigrants was the largest of all the provinces in India. Over two-thirds of these emigrants, says Dr. Hutton,<sup>11</sup> were enumerated in adjacent provinces and of the remainder nearly 95 per cent were found in Assam. Besides, the type of migration from this province being mainly of a periodic character, a large majority of these emigrants would return to their homes later on.<sup>12</sup>

\* Includes Punjab States Agency.

<sup>8</sup> Vide—the Census of India, Vol. I, Part I, p. 64.

<sup>9-10</sup> Census Report, India, p. 64.

<sup>11</sup> Census Report, India, p. 66.

<sup>12</sup> *Ibid.*

Speaking of the question of migration from Bihar and Orissa, its Census Superintendent has observed<sup>13</sup> that Bihar and Orissa gives much more than it receives, but that this is due to the acquisitiveness of Bengal and Assam. In its traffic with these two provinces it suffers a net loss (?) of 1451082 persons, while its dealings with all other parts of India yield a net gain of about 147500.

The following figures<sup>14</sup> indicate the "distribution per cent of the emigrants from Bihar and Orissa between the various principal units of destination":—

		1931.	1921.
Bengal	..	64.3	62.8
Assam	..	26.6	29.2
United Provinces	..	3.9	4.0
Central Provinces	..	2.9	1.7
Burma	..	1.1	1.1
Madras	..	0.7	0.9

It will be evident from these figures that over 90 per cent of the emigrants from this province go to Bengal and Assam. The actual numbers<sup>15</sup> of these emigrants to Bengal and Assam (including states) were 1138850 and 471786 respectively in 1931. "The extent of the migration from Bihar and Orissa to Bengal," writes Mr. W. G. Lacey,<sup>16</sup> Census Superintendent of Bihar and Orissa, "may be gauged from the fact that, home-loving and firmly-rooted in the soil as its people are, one person out of every 30 born in the province was found to be residing in Bengal when the present Census (1931) was taken. The great bulk of this migration is periodic, though of course matrimonial alliances and other "casual" movements account for a good deal of the traffic between districts on the border, and there is an appreciable amount of semi-permanent and permanent change of residence." It may be

<sup>13</sup> Census Report, Bihar & Orissa, p. 100.

<sup>14</sup> *Ibid*, p. 111.

<sup>15</sup> Census Report, Bihar & Orissa, p. 116.

<sup>16</sup> *Ibid*, p. 111.

interesting to note here that 'in 1931 Calcutta and the neighbouring industrial districts of Howrah, Hugli and the 24-Parganas were the destination of almost exactly half the emigrants to Bengal from this province, and that in these four districts male emigrants outnumbered females by about 5 to 1, whereas in the rest of Bengal the ratio was about 3 to 2.'<sup>17</sup> It may also be noted here that 'amongst other parts of India, the province of Bihar and Orissa contributed the largest proportion of immigrants in to Calcutta with suburbs in the 24-Parganas (231,151) followed by the United Provinces (104,401).'<sup>18</sup>

In regard to immigration from other provinces, the following statement<sup>19</sup> indicates 'the percentage contributed by each important unit towards the total number of immigrants into Bihar and Orissa' :—

		1931.	1921
Bengal	..	33.8	30.2
United Provinces	..	27.1	30.0
Central Provinces	..	19.1	20.0
Madras	..	8.7	9.3
Rajputana Agency	..	4.4	4.9
Punjab	..	3.3	2.0
Bombay	..	1.6	1.8

The increase in the number of immigrants from Bengal is noticeable. The number of persons born in Bengal but enumerated in Bihar and Orissa rose from 116922 in 1921 to 157524 in 1931.<sup>20</sup>

The total number of immigrants from the United Provinces into Bihar and Orissa was 126539 in 1931 as compared with 115794 in 1921.

Before I close my remarks in regard to Bihar and Orissa, I should like to refer to a very interesting fact. Towards the end of Chapter I of the Census of India, 1931, Vol. VII (Bihar and

<sup>17</sup> Census Report, Bihar & Orissa, p. 111.

<sup>18</sup> Census Report, Calcutta, p. 13.

<sup>19</sup> Census Report, Bihar & Orissa, p. 110.

<sup>20</sup> Census Report, Bihar & Orissa, p. 110.

Orissa), Mr. Lacey has quoted figures<sup>21</sup> showing the sums of money which were remitted to Post-Offices in Bihar and Orissa during the last six years of the decade 1921—31. These sums represented, according to him, to a large extent the contribution which emigrants made towards the wealth of the province, though they did not cover that portion of their savings, substantial as it usually was, which they might bring with them when they would return home. It would appear from the figures just mentioned that the *yearly* average of remittances by money-order was in the neighbourhood of eight crores of rupees. *Most of this amount came from Bengal and Assam, and of the two provinces Bengal's share was much larger.* As 64·3 per cent of the emigrants from this province went to Bengal, it would not be very far from the truth to say that nearly two-thirds of the yearly remittances to the province by its emigrants came from Bengal alone. Mr. Lacey has also pointed out that, during the three years immediately preceding the Census, remittances to the single district of Saran averaged well over one crore per annum, and those to Cuttack averaged about 80 lakhs, and that these two districts supplied a very high proportion of the emigrants to Bengal.

The province of Bihar and Orissa is also the most important recruiting ground for labourers employed in the tea-gardens of Assam. "In fact," writes Mr. Lacey,<sup>22</sup> 'it supplies the tea-industry with about twice as many labourers as all the rest of India put together—excepting, of course, Assam itself.' As I have stated before, 471786 emigrants from Bihar and Orissa were enumerated in Assam in 1931.

## V

### **The United Provinces.**

The United Provinces has 'the next largest volume of emigration'; but whereas in the case of Bihar and Orissa the total

<sup>21</sup> *Ibid.*, p. 112.

<sup>22</sup> *Census Report, Bihar & Orissa*, p. 112.

number of emigrants in 1931 was less by 196906 than what it was in 1921, that in the case of the United Provinces increased by a net balance of 157657.<sup>23</sup> The emigrants from this province, says<sup>24</sup> Dr. Hutton, 'are on the whole comparatively evenly distributed among all parts of northern and eastern India, *though Bengal gets three times the share of any other province.*' The bulk of this migration is of a semi-permanent character and is regarded 'as a blessing to the province since it relieves the pressure on the soil.'

"In all," writes<sup>25</sup> the Census Superintendent of the United Provinces, "1559000 persons (males 960000, females 599000) born in this province (including the states) were enumerated in other provinces and states in India. Of this number 873000 (males 439000, females 434000) were enumerated in contiguous provinces and states. In 1921 the total born in the United Provinces and enumerated elsewhere in India was 1401000 persons (males 851000, females 560000), so that the numbers have increased by persons 11.3 per cent." 'The greatest number of emigrants from this province,' continues<sup>26</sup> the Census Superintendent, 'to any other are found in Bengal, where in British territory they number 344000 persons (males 259000, females 85000) and in the states 4225 (males 2308, females 1917). Males outnumber females by three to one. There can be no doubt of the nature of this migration. Bengal attracts these emigrants 'by its mills, factories and coal fields, and largely also by domestic service' in the city of Calcutta and its other towns. The actual flow of labour diminished however towards the end of the decade 1921—31 owing to a restricted demand for it caused by the prevailing economic depression.

Further, there is another type of emigration to Bengal rural areas, observes<sup>27</sup> the Census Superintendent, "which is not revealed by the Census figures. I refer to seasonal emigration from

<sup>23</sup> Census Report, India, p. 64.

<sup>24</sup> *Ibid.* 66.

<sup>25</sup> Census Report, U. P., pp. 197-98.

<sup>26</sup> Census Report, U. P., p. 199.

<sup>27</sup> Census Report, U. P., p. 199.

the east of the United Provinces, especially Gorakhpur district, for harvesting crops. This used to proceed in two large, distinct waves at the end of the rains, one to cut the jute crop and the other the rice crop. This seasonal migration has diminished enormously during the last 4 or 5 years. . . These emigrants return during the cold weather and so are always back by the final enumeration. Nevertheless its economic effect on the congested eastern districts is important *as it brings in money from outside*. Its reduction in volume will be keenly felt.”

Immigration into the United Provinces from outside the province is comparatively unimportant. At the last Census out of every 1000 persons enumerated in the province including the states, only 10 were born in other parts of India, and 1 in Asia outside India.<sup>28</sup> And out of 494308 immigrants from other provinces and states in India found in the United Provinces in 1931, 244935 came from British territories, 248450 from Indian states, and 923 from India unspecified.<sup>29</sup> Considered from another point of view, of the total number about 440 thousand came from contiguous provinces and states, and about 54 thousand from farther afield.<sup>30</sup>

With regard to the question of immigration from non-contiguous areas, Mr. A. C. Turner<sup>31</sup> writes<sup>32</sup> that it is for the most part semi-permanent and due to the search for employment. Referring to Bengal, he says that it is the only non-contiguous province from which immigrants appear in considerable numbers. “Bengalis are found everywhere but more especially in the city of Benares where many are collected in Bengali Tola; to a less extent in the cities of Allahabad, Lucknow, Cawnpore and Agra; and in Muttra district. In Muttra this immigration is directed chiefly to the town of Brindaban which has become very popular

<sup>28</sup> Census Report, U. P., p. 193.

<sup>29</sup> *Ibid.*, p. 204.

<sup>30</sup> *Ibid.*, p. 193.

<sup>31</sup> Census Superintendent of the United Provinces.

<sup>32</sup> Census Report, U. P., p. 195.

with Bengalis in the last decade. Very few of these immigrants are permanent, they are mostly of the semi-permanent family type.”<sup>33</sup>

Let us in this connexion consider some figures. Whereas the emigrants from the United Provinces to Bengal numbered as many as 348131 in 1931, those from Bengal to the United Provinces were only 30521 in that year. Their number was 18479 in 1921. There is no doubt again that many of them were in the United Provinces on religious grounds, as some of the holiest centres of Hindu pilgrimage like Benares, Allahabad, Brindaban and Muttra, are situated within this province.

Although the balance of migration on the night of the final enumeration in 1931 was against (?) the United Provinces by 999000 persons, apart from its overseas emigrants and its emigrants to Nepal, yet its Census Superintendent is ‘inclined to think<sup>34</sup> that this outlet is a blessing.’ The pressure of the population on the soil of the province is severe, and growing heavier year by year. There was no widespread complaint of shortage of agricultural labour at any time during the past decade; nor did the industrialists in the province experience any difficulty in securing all the labour they required. The Census Superintendent opines, however, that, as the industries of the province develop labour will cease to emigrate from the province ‘in view of the in-born dislike of the average Indian of travelling far from his home village.’ Let us hope so!

## VI

### Madras.

Madras is the third highest province in respect of the number of emigrants from it to other parts of India. I am not referring here to its overseas emigration to Malaya and Ceylon as that question is not within the scope of this paper. The following figures<sup>35</sup>

<sup>33</sup> *Ibid.*

<sup>34</sup> Census Report, U. P., p. 201.

<sup>35</sup> The Madras Census Report, p. 79.

indicate the number of its emigrants in 1931 to some parts of India:—

		No. of females to 1000 males.
Burma	...	233
Mysore	...	819
Bombay	...	597
Hyderabad	...	297
Travancore	...	899
Assam	...	852
Bengal	...	809
Bihar & Orissa	...	1166

It will be evident from the above that 57448 Madrasis were enumerated in Assam in 1931 with a sex ratio of 852 females per 1000 males. "When one considers," writes<sup>36</sup> the Census Superintendent of Madras, "Assam's remoteness from Madras so high a ratio indicates something more like settlement than the normal male migration in search of work. And something of settlement there is about conditions on the tea estates which in Assam absorb most Madrasi immigrants."

It is interesting to note here that the number of Madrasi immigrants in Bengal was 42437 in 1931 as compared with 31270 in 1921.<sup>37</sup> Thus the number increased by 11167 during the decade 1921—31.<sup>38</sup> According to the Census Superintendent of Bengal, the number of Madrasi immigrants had increased in 1921 by 17681 over those at the beginning of the decade 1911—21. Thus the increase in the number of the Madrasi immigrants was continuous between 1911 and 1931. Many of these immigrants are labourers in such centres as Kharagpur and Tittagarh, but in Calcutta, says the Census Superintendent, 'the Madrasi is a serious rival to the Bengali for clerical appointments.' Indeed, the problem of the

<sup>36</sup> Madras Census Report, p. 83.

<sup>37</sup> According to the Madras Census Report, the number in 1921 was 28,595.

<sup>38</sup> Immigrants from Madras States have not been taken into account. Their number was 63 in 1931. (Vide Bengal Census Report, p. 105.)

educated unemployed in Bengal has been seriously accentuated by the presence of the Madras Clerk whose services can often be had on much better terms from the point of view of the employer than those of his Bengali confrere.

Curiously enough, the Madras Census Report for 1931 does not throw any light on the question of the number of Bengali immigrants in Madras. The only information it gives is that in 1931 there were in Madras 47584 immigrants from British territory and 182746 from Indian States and Agencies. But the following table taken from the Madras Census Report for 1921 may be interesting:—

	Immigrants to Madras.		Emigrants from Madras.	
	1921	1911	1921	1911
Bengal	...	3181	6547	28595 <sup>39</sup>
Assam	...	51	204	54536
				34509

## VII

### Assam and Bengal.

The percentage of the foreign-born population in Assam was very high in 1931. It was 15.2 in 1931 as against 16.1 in 1921 and 12.5 in 1911.<sup>40</sup> Thus out of every 1000 persons enumerated in Assam in 1931 only 848 were born within the province. The corresponding numbers in Bengal, Madras, Bombay, the Central Provinces, the United Provinces and Bihar and Orissa were about 963, 995, 954, 963, 989 and 990 respectively.<sup>41</sup> In the same year<sup>42</sup> the number of emigrants from Bengal to Assam was 575199 and that of emigrants from Assam to Bengal was 63416. As a matter of fact, the largest number of emigrants from Bengal in 1931 was found in Assam; and the numbers of its emigrants to Burma,

<sup>39</sup> According to the Bengal Census Report (p. 105) the number of emigrants from Madras (excluding states) was 81270 in 1921.

<sup>40</sup> Assam Census Report, p. 48.

<sup>41</sup> See relevant Census Reports.

<sup>42</sup> See Bengal Census Report, p. 105.

Bihar and Orissa, the United Provinces, the Central Provinces, Bombay, the Punjab and the Rajputana were 158098, 157524, 30950, 6946, 6018, 4018 and 1007 respectively. On the other hand, the Bihar and Orissa contributed 2·2 per cent to Bengal's population, the United Provinces 0·7 per cent, Assam 0·12 per cent, the Central Provinces 0·09 per cent, Madras 0·08 per cent, and Rajputana 0·06 per cent.<sup>43</sup>

According to Dr. Hutton, Assam's immigration is generally speaking of the permanent type. The following table<sup>44</sup> will indicate the main currents of migration to Assam from within India:—

(000s omitted)

Birthplace	1931	1921
Bengal	... 575	376
Bihar and Orissa	... 472	571
Central Provinces	... 82	91
United Provinces	... 68	77
Madras	... 58	55
Central India Agency	... 15	18
Rajputana	... 22	16

The tea-gardens of Assam and its vast undeveloped areas attract many immigrants. As a matter of fact, the whole complexion of the population of Assam, says<sup>45</sup> Dr. Hutton, is being altered by the permanent immigrants from Mymensingh in Bengal. This is very probable and also natural. Assam is thinly populated. With an area of about 67000 squares miles it has a population of only 9·2 millions. The number is much too small even if an allowance is made for its hilly and mountainous tracts. Bengal with an area of about 83000 square miles (including its states) has a population of about 51 millions. According to the

<sup>43</sup> Bengal Census Report, p. 90.

<sup>44</sup> Assam Census Report, p. 44.

<sup>45</sup> Census Report, India, p. 65.

Bengal Census Report, the mean density<sup>46</sup> in Bengal is 646; that in Assam only 167. Besides, Eastern Bengal is so contiguous to Assam. Moreover, for a number of years Eastern Bengal and Assam formed one administrative unit under one Lieutenant-Governor.

In this connexion the following remarks of the Census Superintendent of Assam<sup>47</sup> are interesting:—

“ Probably the most important event in the province during the last twenty-five years—an event, moreover, which seems likely to alter permanently the whole future of Assam and to destroy more surely than did the Burmese invaders of 1820 the whole structure of Assamese culture and civilization has been the invasion of a vast horde of land-hungry Bengali immigrants, mostly Muslims, from the districts of Eastern Bengal and in particular from Mymensingh. This invasion began sometime before 1911, and the Census report of that year is the first report which makes mention of the advancing host. But, as we now know, the Bengali immigrants censused for the first time on the *char* lands of Goalpara in 1911 were merely the advance guard... or rather the scouts—of a huge army following closely at their heels. By 1921 the first army corps had passed into Assam and had practically conquered the district of Goalpara... The second army corps which followed them in the years 1921—31 has consolidated their position in that district and has also completed the conquest of Nowgong. The Barpeta sub-division of Kamrup has also fallen to their attack and Darrang is being invaded. Sibsagar has so far escaped completely but the few thousand Mymensinghias in North Lakhimpur are an outpost which may, during the next decade, prove to be a valuable basis of major operations.”

Again:—

“ *Wheresoever the Carcase, there will the vultures be gathered together...* In fact the way in which they have seized upon

<sup>46</sup> Bengal Census Report, p. 22. Curiously enough, according to the Assam Census Report, the mean density in Assam is 187 as against 616 in Bengal.

<sup>47</sup> Vide the Assam Census Report, pp. 49-52.

the vacant areas in the Assam Valley seems almost uncanny. Without fuss, without tumult, without undue trouble to the district revenue staffs, a population which must amount to over half a million has transplanted itself from Bengal to the Assam Valley during the last twenty-five years. . . . *the only thing I can compare it to is the mass movement of a large body of ants.* . . . It is sad but by no means improbable that in another thirty years Sibsagar district will be the only part of Assam in which an Assamese will find himself at home."

There is, however, another side of the picture. As the District Officer of Nowgong has reported,<sup>48</sup> the immigrant settlers "have opened up vast tracts of dense jungle along the south bank of the Brahmaputra and have occupied nearly all the lands which are open for settlement in this tract. These people have brought in their wake wealth, industry, and general prosperity to the whole district. They have improved the health of the countryside by clearing the jungles and converting the wilderness into prosperous villages. Their industry as agriculturists has become almost proverbial and they extract from their fields the utmost that they can yield. Their love and care of cattle is also an object lesson to others. Government revenue has increased. Trade and commerce have prospered. The lakhs of rupees which annually pour into the district to buy their jute pass out from their pockets into those of the traders who sell them their foodstuffs and imported goods, as well as into those of the lawyers and *mahajans* who look after their litigation and finance."

## VIII

In conclusion I should like to say that it is clear from what has already been stated how inter-provincial migration in India is at least a partial remedy for the problem of unemployment in our country, and how its different administrative units are economically interdependent. But I am constrained to observe in

this connexion that such remarks of the Census Superintendent of Assam as have been quoted above, are likely to awaken, indirectly, if not directly, interprovincial jealousy, and to accentuate the existing tendency towards economic provincialism. It should be borne in mind that if one province makes any discrimination against the people of another, it is bound to provoke retaliation on the part of the latter. It cannot expect that others will keep their doors open to it when it is closing its own door against them. The principle of reciprocity is the only principle that will succeed in these matters. Besides, India is one geographical unit; it is going to be practically a single political unit under the proposed federal plan. It should, therefore, be treated also as a single economic unit. If, on the other hand, artificial barriers are set up restricting the free movement of population within the country, and if it is divided into so many water-tight economic compartments, I for one really despair of its future as a strong united nation.



## SCOPE AND METHOD OF ECONOMIC PLANNING IN INDIA

BY

H. L. DEY, M.A., D.Sc., ECON. (LONDON),

*Reader in Economics, Dacca University.*

Economic Planning may be defined as a conscious and deliberate control of a specific economic environment with a view to the realization of a determinable, single, end.

### **The Need for Statistical and Economic Intelligence.**

This implies, in the first place, an adequately complete and correct knowledge and understanding of the material and human factors that constitute the environment. An exhaustive survey of all our natural resources in soils, minerals, water-supply, power and climate may perhaps be regarded as our first series of data. A similar study of the human factor both in its quantitative aspect as shown by the movement and age-composition of the population as well as in its qualitative aspect as indicated by occupational distribution will form the second series. The third group of primary data would consist of a census of our capital resources in live-stock, tools and implements, machinery and plant, and transport and communications. And the fourth and last group of data would contain a survey of the organisation of production in its broadest sense—scale and method or technique of producing, financing, marketing and transporting. These four groups of data would constitute what might conveniently be called the base line of the plan. They will give us a complete picture of our material environment as it is. They will show up our organic deficiencies relating to our natural resources and thus lay down the ultimate limitations in the framework of any proposed plan. But, they will also bring out our functional deficiencies relating to undesirable

trends in the movement and composition of the population (*e.g.*, deviations from the optimum or too few adults and too many children and old men), inadequate and inefficient machinery and plant, financial resources and organisation, and marketing machinery and method. They will give us a measure of the wastage of our economic resources and thus help us in estimating our potential capacity for advance towards any of the possible alternative ends, that may be selected as the object of the plan.

True, some of the necessary data indicated above are already available in the statistical and economic publications of the Government, the Universities and other independent institutions, and individual investigators. But, as the Economic Enquiry Committee (1925), the Agricultural Commission (1927), and recently the Simla Crop Planning Conference (1934) found, these data are exceedingly defective in quality and quantity, and need to be replaced or supplemented by a more scientifically organised collection of data kept fairly up-to-date on the lines indicated by Messrs. Bowley and Robertson in their recent Report.<sup>1</sup> These two experts suggested a four-year programme for a census of production, and perhaps a five-year period must elapse before the result of the proposed Census, if undertaken, can be tabulated and collated so as to form the starting point of any comprehensive national economic planning.

#### **Constitutional Limitations in the Central Sphere.**

In the second place, planning would involve a large degree of control over the environment. But, evidently, the degree as well as the manner of control must be governed by the fundamental political and sociological institutions. In the political field, we are limited, firstly, by the fact that the power of the Government is hedged round by various political reservations, commercial and financial safeguards, and discretionary powers and special responsibilities. The exclusion of the army, the navy, and the air force will, of course, mean that the planning authority (say, the Federal

<sup>1</sup> A. L. Bowley and D. H. Robertson, *A Scheme for an Economic Census of India* (1934).

Government) cannot exercise any control over the expenditure of a large part of the revenue resources, which would have given them large powers of regulating investment, production and employment in the interest of planned economy. The reservation of the recruitment of a large percentage of the personnel of the Civil, Police and Medical Services, and of the entire Diplomatic Service<sup>2</sup> will also imply a similar limitation. These matters have become the common places of political and economic discussion in this country and need not detain us long.

#### The Reserve Bank and Economic Planning. Limitations on Financial Powers.

But the most serious limitation of the planning authority will arise from the reservations regarding the Central Bank, which is nowadays everywhere regarded as the most powerful machinery for the exercise of economic control. Under the proposed scheme of constitutional Reforms, the Federal Government will have no power to introduce any amendment of the Reserve Bank Act, specially any that would relate to the management of exchange and currency, without the previous sanction of the Governor-General given at his discretion and not on the advice of the Federal Cabinet. Besides, borrowings and general budgetary arrangements are among the reserved powers of the Governor-General who, with the assistance of his Financial Adviser, will control them in the interest of India's financial stability and credit both at home and abroad.<sup>3</sup> Now, it is well known that in matters relating to currency and credit, there is a wide divergence between the British and the Indian points of view. In 1926-27, and again in 1933-34, to take only two recent instances, there appeared a great gulf of difference fixed between the two angles of vision in relation to the appropriate policy of currency and exchange management. The entire trend

<sup>2</sup> Report of the Joint Committee on Indian Constitutional Reforms (1934), Vol. I, Part I, pp. 182-86.

<sup>3</sup> White Paper, page 58, proposal 119, and *Joint Committee Report*, op. cit., paras 170 and 391.

of post-war developments both in theory and practice has been towards the state control of the mechanism of currency and credit to realize the specific aims of long or short-range economic planning. Leaving aside the theory of monetary control, of which the most powerful advocate in our time has been Mr. Keynes, even in the domain of practice, we find that nearly all important modern countries have departed widely from the old, orthodox and now exploded doctrine of political non-interference in monetary matters. And this has been done not merely in Soviet Russia where, of course, the Central Bank is just a branch of the People's Commissariat of Finances, or in Nazi Germany or Fascist Italy or Roosevelt's United States of America, or in France and Japan, where the Central Bank is under the control of the Treasury, but also in Great Britain, where the dogma of the political independence of the Bank has been elevated to the dignity of almost a first-rate principle.<sup>4</sup> It needs only to be added that even Australia and New Zealand, which have long been financially under the direction of the Bank of England, have recently followed an independent policy in the matter of currency and credit.<sup>5</sup> We would not deny that a large measure of consultation and co-operation between the Bank of England and the Reserve Bank of India would be both essential and beneficial. But co-operation is one thing, and control and subordination quite another.<sup>6</sup>

<sup>4</sup> On this point Mr. G. D. H. Cole observes : " More than once it has become plain that the only real alternative to Government control of the Banking system has been not the separation of the financial and the political powers, but rather the control of the political by the financial authority. (*What Everybody wants to know about Money*, p. 481).

<sup>5</sup> *World Economic Survey*, 1932-33, p. 27, and the *Indian Economist*, No. 19, 1934, pp. 179-81.

<sup>6</sup> No notice is made here of the reservations regarding commercial discrimination against great Britain (*Joint Committee*, pages 204-11), and the statutory Railway Authority (*Ibid.*, pages 230-35), because, in the writer's opinion, they need not necessarily conflict with the interest of planned economy. The case of shipping, however, is a debatable one (*Ibid.*, page 209, para 354). No doubt all the three cases are constitutionally objectionable,

**Provincial Autonomy as a Hindrance.**

A second limitation imposed by the administrative frame-work of the present as well as the proposed constitution arises out of the division of authority into two water-tight compartments, Central and Provincial (or State), specially in relation to the more important departments of economic life. The Provinces will have virtual autonomy in regard to agriculture, fisheries, co-operative credit, forests, mines, unemployment and industries (with a few exceptions): In particular it may be noted that the subject 'control of the production, supply and distribution of commodities,' has been specifically scheduled as a provincial subject.<sup>7</sup> And this administrative and legislative autonomy is accompanied by a virile and growing sentiment of cultural and economic provincialism as evidenced by recent practices and declarations regarding the recruitment for the various services in the Provinces. It may be that a certain degree of administrative decentralisation and cultural autonomy is a matter of practical and sentimental necessity. But, the attempt to cut up a geographic and economic unit into provincial compartments is against the entire trend of modern technical and commercial developments and is bound to involve such tremendous difficulties that any substantial plan of ordered and co-ordinated development will be smashed to pieces. Two concrete cases of recent experience will bring out the character and strength of these difficulties. Let us, first of all, review the proceedings and upshot of the Sugar Conference held in Simla in July, 1933. In view of the extremely rapid development of the sugar industry under the stimulus of an exorbitant measure of protection since 1930-31 and to safeguard against the risk of over-production, the provincial representatives were called together to arrive at some decisions regarding the future plan of development through a system of zoning, licensing, and price-fixing for sugarcane. Sir (then Mr.) J. P. Srivastava, Minister for Agriculture in the United Provinces, made out a strong case for legislative regulation.

<sup>7</sup> *Joint Committee Report*, op. cit., p. 156, Item 37.

And he was supported by the representatives of Mysore, Hyderabad, and the Punjab, while those of Bengal, Bihar and Madras and Dr. Gokul Chand Narang of the Punjab in his personal capacity were strongly opposed to legislation. In consequence, though the conference threw much light on the situation, it produced no fruit.<sup>8</sup> Because, although Sir Jwala Prasad's case was based on the plea of rational and scientific development by removing some of the proved defects of the organisation of the industry, it also happened that the United Provinces was by far the largest producer of sugar, while the other Provinces (notably Bengal and Madras, where soils and climate were favourable and sugarcane had been decided upon as a substitute for jute and paddy respectively) had hardly yet made a good beginning in the development of the industry.

The same conflict of interests appeared in a more pronounced form at the Crop Planning Conference held at Simla in June, 1934. Burma desired that the other Indian Provinces should offer a stable market for her cheap rice by not encouraging the growth of paddy but Madras and Bengal both disagreed, because they wanted to be self-sufficient. Again, in the matter of wheat, the available data of production and consumption pointed to the desirability of cutting down the wheat acreage from 35 to 33 millions. But while the United Provinces was willing to fulfil her due share of the restriction programme, the Punjab suggested that Sind should definitely undertake to stop expansion in order to stabilise supply, and Sind replied that such a restriction would greatly handicap her economic and financial development. There was even a talk of retaliation against each other. And the threat, perhaps uttered in an unguarded moment and yet symptomatic of the existing state of things, came from the Hon'ble Revenue Member of the Government of the Punjab, who delivered himself as follows: "On the question of stimulus, if Sind is putting

<sup>8</sup> According to the writer's information, the necessary legislation on the subject has been so far passed only in U. P. and Mysore.

these fresh acres under wheat, all we can say is that we can't bind ourselves as regards our future measure of retaliation."<sup>9</sup> The old question of sugarcane was again taken up and there was, again, the same deadlock. The representatives of the United Provinces and Bihar and Orissa naturally deprecated the sentiment of provincial self-sufficiency, while the representatives of Bengal, Bombay and Madras refused to sacrifice provincial interests at the altar of all-India planning.<sup>10</sup> The Conference failed to produce any agreed plan, because all-India unity is still a vague and distant ideal, while local autonomy and provincialism are hard realities. Nevertheless, it served, firstly, to indicate the limitation of planning, and secondly, as a clearing house of economic facts and tendencies, both internal and external.

#### Planning and Private Property. The Need for Control.

And finally, a third and a more fundamental limitation of the scope and method of planning in India arises out of private property in the instruments of production, *viz.*, land, mines, key industries and banks. The institution of private property in these essential tools and machineries of production, in the first instance, gives the owners a right to the large residual share of the National Dividend and thus brings about glaring inequalities of wealth and income, which is regarded by Mr. J. A. Hobson and his school as the main cause of business cycles.<sup>11</sup> More important still, the decisions as to what shall be produced and how much of each thing, on which rests the entire system of production and employment, are largely made by the owners of private property. In every line of production, each producer tries to capture as large a share of the market as possible to the exclusion of all competitors, and the process ends in over-production and in the ruin of each and all.

<sup>9</sup> *Proceeding of the Crop Planning Conference* held at Simla on the 8th and 9th June, 1934, page 43.

<sup>10</sup> *Crop Planning Conference*, op. cit., pp. 55-56.

<sup>11</sup> J. A. Hobson, *Economics of Unemployment*.

The recognition of the common interest of the group then leads to combinations of all kinds and we are violently swung back to the other extreme of under-production—supply being deliberately kept far short of demand in the hope of getting as large a profit as possible at the cost of the rest of the community. Hence the large acceptance among businessmen of the doctrine that 'everybody's work makes everybody else poorer.'<sup>12</sup> Hence, too, follows the tragic and ridiculous situation in which we have found ourselves in the last few years—the co-existence of unsatisfied demand side by side with unused resources and unemployed labour. This is largely the explanation of the famous paradox of poverty in the midst of plenty. This conflict, first, of each against all, and later on, as just now, of each group against the rest of the community, is a tremendously powerful disruptive force, inherent and deep-rooted in the system of private property,<sup>13</sup> and it can never be eliminated unless the institution is abolished or at any rate very considerably modified in the direction of a greater and greater measure of social control. It is for this reason that the authorities of Soviet Russia at an early stage in the development of planned economy nationalised all land, factories, railroads and banks, and made foreign trade a state monopoly.<sup>14</sup> And this is also the essential reason why even in countries outside Russia, e.g., United States of America, Italy and Germany, a large degree of state control over the factors of production is being enforced so as to radically alter the substance of private property, even though the form of it may have been left intact. It must be clear, therefore, that the scope of any planned economy in India must be limited by the extent to which effective state control can be exercised over the use of the fundamental instruments of production. Complete nationalisation on

<sup>12</sup> Bertrand Russell, *Education and the New Social Order*, p. 200.

<sup>13</sup> For a brilliant analysis of the phenomenon described here, see Barbara Wootton—*Plan or No Plan*, pp. 150—58, 317—22. Also Cf. Keynes—*A Treatise on Money*, Vol. I, Chapters 12 and 18.

<sup>14</sup> G. T. Grinko, *The Five-Year Plan of the Soviet Union*, page 13.

the Russian model would perhaps be impossible and inexpedient. But the desirability and also the practicability of a large and increasing measure of social control have been proved by the entire history of economic legislation in the last century and a half, and still more remarkably by the Roosevelt Experiment in America. And even in India, we of the different provinces are just at present engaged in the task of social control over the rights of private property by various measures of conciliation, arbitration and liquidation in respect of agricultural debts.<sup>15</sup>

## II

### PROBLEMS AND PROSPECTS OF ECONOMIC PLANNING IN INDIA

#### The Choice of An End.

Having now pointed out what planned economy in India cannot be, we are perhaps in a position to indicate what it can be and is likely to be. Our first task is to clearly determine the principal aim which the proposed plan should be designed to realize. This implies that one out of many desirable purposes should be definitely selected as the principal aim of the plan, while all other aims must be subordinated, or if incongruous with it, rigidly excluded. Again, the aim must be such that the necessary means are at the disposal of the planning authority in the sense of being not only technically possible but also legally permissible, administratively feasible and politically expedient. Among the few possible alternative ends of economic planning in India, it appears that an increased production of wealth both by the adoption of improved technique and the utilisation of idle resources will be the most

<sup>15</sup> The Punjab Land Alienation Act is another case. It is interesting to note that the Joint Committee contemplates the possibility and even the necessity of such modifications of the rights of private property in the interest of national welfare, and specially notes the cases of free and privileged tenures of land and Permanent Settlement. (*Report*, op. cit., paras. 370-72).

desirable one, because, as is evident from the various estimates of National Wealth and Income as made by Messrs. K. T. Shah, Findlay Shirras, Gilbert Slater and others, the problem of all problems with which India is faced at the present day is the problem of poverty, which is perhaps to a small extent due to faulty distribution of wealth, and to a great extent due to low production.<sup>16</sup> In suggesting that the main objective of economic planning in India at the present stage should be a great enlargement of the National Dividend, it is not implied that there are no problems of distribution such as that of the attainment of economic and social equality without which democracy is bound to lose its substantial qualities of political equality, liberty and fraternity. Nor need we omit to mention that the development of a stable and well-balanced economic or social system is exceedingly difficult, if not impossible, without a more equitable distribution of wealth as between the masses and the classes, producers and consumers, and also between the different classes of producers. All that is stressed here is that, in the present circumstances of India, the problem of a vastly increased production of wealth must take precedence over all other questions. The reasons for this view may be stated as follows: In the first place, the end selected as the objective of National Economic Planning must be such as to command the largest measure of willing assent and support from the people concerned in order that it may be executed with the greatest degree of efficiency. And the one objective on which the largest measure of agreement is likely to be attained in India at the present moment is that of a larger National Dividend. Secondly, in a world where economic warfare as between nation and nation and of each nation against all others is the normal order, the claims of efficient and increased production must be dominant and all else subordinate and subservient. And finally, practically all the other possible alternative objectives that may be desirable in a planned economy, *viz.*, military efficiency, political

<sup>16</sup> Cf. *Report of the Indian Statutory Commission*, Vol. I, page 374.

strength and better distribution of wealth, are all reconcilable with the dominant aim of better production. For, military power and political strength are largely based on economic foundations, while the claims of a more equitable distribution of wealth may be served by a well-devised system of Industrial Codes as under the National Industrial Recovery Act of the United States of America, or by a more elaborate system of Labour Charter, Labour Courts, Collective Contracts and National Council of the Corporations as in Italy.<sup>17</sup> It may be mentioned in this connection that both in Soviet Russia as well as in Fascist Italy, one of the major aims of economic planning has been to stimulate production in specific industries.

#### The "Planning of Planning."

A planned economy, in the second place, involves the drawing up of a Time-Table, which must set down the programme of work to be done, and the period during which the plan must be executed. Within this general Time-Table, again, progressive time-tables, for shorter periods, say one year, must be fixed up both as measures of stimulus as well as of check.<sup>18</sup> Then, again, in the face of provincial economic autonomy and on account of the absence of requisite data, it is not possible to draw up a comprehensive plan of national economy on an all-India basis and comprising all the departments of economic life as harmonious and inter-related elements of a larger whole. Consequently, under present conditions, all that can be done is to prepare the ground for such a complete plan by following three lines of procedure side by side. And since a 'five-year plan' has a halo of romance about it, specially in connection with Russian developments, we may as well select a five-year period for what might be called the 'planning of planning.' The first line of work will consist in collecting the raw materials of planning mainly through the organization of

<sup>17</sup> Pitigliani, *The Italian Corporative State*, Chapters II—IV.

<sup>18</sup> G. T. Grinko, *The Five-Year Plan of the Soviet Union*, pp. 22—27.

economic and statistical intelligence. The nucleus of such an organisation is already there in our Central Department of Commercial Intelligence and Statistics. Professor Bowley and Mr. Robertson suggested that there should be two other trained economists at the Centre who, along with the Director-General of Commercial Intelligence and Statistics, should form the thinking machine,<sup>19</sup> as it were, annexed to the Economic Committee of the Central Cabinet. As the work develops, the number of officers of this group might be increased. But the British Economists would assign rather a narrow scope to this group of experts who would devote their 'whole time to the study of the practical problems which are appearing on the horizon,' and organize the collection, and in suitable cases the publication of the relevant information, and keep itself abreast of the trend of ideas and opinions in the business world. Further, the Director of Statistics would be charged with the duty of conducting the censuses of population and production, and of organising and co-ordinating Central and Provincial Statistics.<sup>20</sup> It would seem that in making these suggestions, the two British Economists had in view a completely neutral type of scientific work such as is generally published by the Economic Consultative Committee of the League of Nations. This line of work will no doubt be of considerable value for India. But, from the point of view of economic planning, the main task of the Central Economic Staff should be to evolve a definite plan of economic development out of the statistical and economic data that they will be collecting and organizing.<sup>21</sup> Such data will be obtained partly from the economic and statistical intelligence service, partly from the specialized research institutions like the Imperial Council of Agricultural Research and the proposed

<sup>19</sup> President Roosevelt calls it the Brains Trust, while the corresponding name in England is the Economic General Staff.

<sup>20</sup> Report, op. cit., pp. 2-3. The present Director-General would be called the Director of Statistics.

<sup>21</sup> See Sir Arthur Salter, *A Scheme for an Economic Advisory Organisation in India*,

Central Bureau of Industrial Research, the Central Marketing Officer as well as from the Inter-Provincial Economic Conference to be convened by the Central Government from year to year (like that of April 3—6, 1934), from the partial plans actually at work, provincially or on an all-India basis, and from various agricultural, industrial and commercial associations of an all-India character.

#### Some Cases of Partial Plans.

To initiate and execute the partial plans just mentioned will constitute the second line of work. These partial plans will be concerned with the solution of specific urgent problems, which may be regarded as having been already clearly defined both as to their scope and method. One such all-India problem that needs to be and can be immediately taken in hand is that of tariffs. In the first instance, the entire structure of our commercial treaties, some of which are more than a hundred years old and most of which are thoroughly antiquated and unsuitable, should be scrapped and built up anew on the principle of reciprocity and on the model of the Ottawa and the Indo-Japanese Agreements but with the aid of a more detailed, scientific analysis than was done in the last two cases.<sup>22</sup> Secondly, there should be a more steady pursuit of a protective policy, which will include not merely the examination of the cases of those specific industries which apply for protection, but also a keen watch over the interests of unprotected industries using the protected goods, and prompt adjustments to meet changes and fluctuations in prices and costs, both internal and external. For this purpose it is essential that the Tariff Board should be made a permanent body, and strengthened by the inclusion of experts in industrial and tariff matters.<sup>23</sup> Among the other important problems which call for solution through a central plan

<sup>22</sup> Mr. F. E. James's speech, Assembly Debates, March 8, 1934. The American treaty is dated 1815, the Italian 1882, the Dutch 1824, and the French 1908.

<sup>23</sup> Mr. F. E. James, op. cit. Also see the present writer's book—*The Indian Tariff Problem*, pp. 286—88.

may be mentioned that of devising an appropriate machinery for linking up agricultural finance, specially in relation to the marketing of staple crops both internally and externally, with the organised banking system of the country through the issue of warehouse certificates, and the reorganisation of the cotton and the coal industries.<sup>24</sup> Perhaps the most appropriate and fruitful line of central control over industrial reorganisation would be to encourage, stimulate and even compel the corporative organisation of industries and agriculture on the basis of syndicalist associations of industrialists, workers, bankers, peasants, liberal professions, arts, handicrafts, etc., with an Economic Parliament at the apex of the Pyramid as in the Italian Corporative State,<sup>25</sup> or through a system of industrial and agricultural codes to be set up under a comprehensive Act on the model of the National Industrial Recovery Act of the United States of America.<sup>26</sup> Such a comprehensive organisation of economic life will be in conformity with the trend of modern technical and commercial developments. It will lead to the promotion of self-discipline in each group and between group and group. It will also help in linking up the productive organisation both as a whole as well as in all its parts with the machinery and the policy of the national plan of economic development.<sup>27</sup>

But, as suggested above, on account of the existence of a virile type of economic provincialism and due to the constitutional autonomy of the Provinces, planned economy must, for the present

<sup>24</sup> Industries of an all-India character may be made a federal subject. Vide *Joint Committee Report*, op. cit., p. 152, Item 26.

<sup>25</sup> League of Nations—*Review of the Economic Councils in the different countries of the world*, pp. 51—64.

<sup>26</sup> International Labour Office—*National Recovery Measures in the U. S. A.*

<sup>27</sup> Cf. Sir Arthur Salter—*The Frame Work of an Ordered Society*, Chapter on 'Institutional Self-Discipline' Sir Arthur thinks that in this way alone can economic planning be reconciled with a large degree of freedom of initiative and enterprise. On the other hand, Mrs. Barbara Wootton holds that the two things are altogether incompatible (*Plan or No Plan*, pp. 317—22).

at any rate, be very largely a provincial business. Here, again, and for identical reasons, there must, first, be the 'planning of planning' in the first five years, as in the case of all-India planning. The machinery and the procedure also must to a large extent be similar. But the only important difference will be that here in the Provinces there can also be immediately started the machinery of consultation with representative opinion from all the main departments of organised economic life in the shape of Economic Advisory Councils. It is likely that the experience and the personnel of these Provincial Councils will ultimately help in the constitution of an appropriate and effective Economic Council at the Centre.<sup>28</sup>

<sup>28</sup> This is also the view of Sir George Schuster, Assembly Debates, 8th March, 1934.

# THE ECONOMIC PLANNING OF AN AGRI-CULTURAL REGION, UNITED PROVINCES

BY

DR. RADHA KAMAL MUKERJEE.

To bring about an economic offensive in 111,000 villages of this Province simultaneously is impossible in the face of inadequacy of resources in men and money. A more practical plan of attack would be first, (a) to concentrate on certain social and economic experiments in several selected areas with a considerable massing of men and materials such as are likely to create a revolution in the morale of the entire Province, and, secondly, (b) to select regions and areas where conditions of economic life are particularly unfavourable and where effective rallies must be made. In both cases the units of mobilisation should be larger than a *tahsil* and in such attacks success can be more easily achieved if the schemes and experiments may be co-ordinated together in a planned programme. We would consider first (a) line of attack under a planned scheme.

The Economic Planning Department in an area would consist of the following sections which should be linked and co-ordinated together :—

- (1) Consolidation of Holdings.
- (2) Improved Agriculture.
- (3) Cattle Improvement.
- (4) Agricultural Marketing.
- (5) Co-operation.
- (6) Rural Industrial Employment.
- (7) Improvement of Roads and Transport.
- (8) Rural Housing and Sanitation.

Under each section in the five-year programme, the field staff of the different Government Departments and members of the

District Boards and Panchayats will decide the amount of progress they envisage in terms of so many acres of improved wheat and sugar-cane, of afforested land, and controlled grazing, so many consolidated holdings, so many co-operative societies, tube-wells, pit latrines, schools, health visits, approved bulls, etc.

The organisation of economic planning may be roughly envisaged as follows:—

- (1) A Tahsil Planning Director to plan and co-ordinate the work of the above sections.
- (2) He will be assisted by a staff of eight officers from the Departments of Agriculture, Irrigation, Co-operation, Marketing, Industries, Education, Sanitation and Animal husbandry.
- (3) A Subordinate Inspecting staff, constantly on tour, of five each from the above departments in each *tahsil*.
- (4) Two Agricultural Engineers in every *tahsil* for directing land reclamation and construction works, choice of suitable sites for well construction, prevention of soil erosion and drainage, etc.
- (5) Two Forest Officers in every *tahsil* for directing schemes of village afforestation, pasture management, reclamation of ravines and sand-dunes and propagation of defensive vegetation against the encroachment of sand.
- (6) Rural reconstruction—trained teachers in every school.
- (7) Domestic science—trained teachers in all girls' schools.
- (8) A Lady Superintendent for home-visit and women welfare work.
- (9) Rural guides and Boy Scout troops organised in close association with the Planning Department.
- (10) University students trained in rural reconstruction.

A

**1. Consolidation of Holdings.**

The crux of economic planning centres round the problems of the prevention of fractionalisation and scatteredness of holdings. The majority of holdings in the Indo-Gangetic Plain, Central and East, are undersized. Where agriculturists are cultivating un-economic holdings, they can hardly make their ends meet, have no surplus and are in chronic debt. It is futile to apply any economic planning to their case. The potentialities of scientific cultivation which would mean investments for better cattle, better appliances, better seeds and better fertilisers are nil in their case. Nor can such agriculturists profit much from a country-wide campaign of better marketing, removal of illiteracy and better sanitation. A staff of Kanungos advising the villagers about consolidation and organisation of Co-operative Consolidation Societies, as in the Punjab and a push from the zamindars should all aim at removing what is now the insurmountable barrier to all economic improvements.

**2. Improved Agriculture.**

The improvement of local agriculture in the area of experimentation may be carried out along the following lines and through these agencies:—

- (1) The selection and distribution of pure seeds of all crops should be controlled by the establishment of government seed farms and co-operation of the cultivators in the matter of seed distribution should be secured by offering them certain reductions of prices, bonuses, etc. Co-operative Societies should also be assisted in making storage, etc.
- (2) The stocking of improved agricultural implements, cane-crushing mills, water lifts and buckets in the Government farms and their distribution through

- (a) the co-operation of cultivators to whom reduction of prices, bonuses, etc., may be given;
- (b) the grant of ' *takavi* ' loans for the purchase of agricultural implements and machinery.

(3) An intensive and vigorous campaign should be carried on against dung-cakes.

(4) Demonstration class should be started within the cultivated area where the results of introduction of a better variety of crop, a better implement, a better system of cultivation or a more adequate manure may be shown to peasants who cultivate in contiguous fields.

(5) Direct propaganda by means of lectures, shows and Exhibition trains.

(6) The establishment of Co-operative Societies such as agricultural supply and better farming societies in the area of experimentation which would provide other links between the field staff of the Agricultural Department and the agriculturists of the locality.

### 3. Cattle Improvement.

The chief lines are:—

- (1) Fodder survey with reference to cattle requirement and nutrition in lean years and the introduction of fodder crops as Egyptian clover which may also serve as good green manure;
- (2) The adoption of controlled and rotational grazing under the supervision of village punchayats or better farming societies;
- (3) The storage of grasses in silos;
- (4) The castration of scrub bulls and distribution of good breeding bulls;
- (5) A campaign against cattle epidemics and diseases;

- (6) The establishment of cattle breeding societies and their encouragement by special favours of selected bulls and other concessions;
- (7) Direct propaganda as by cattle shows;
- (8) Improvement of dairy farming and the establishment of depôts for the collection, pasteurizing and cooling of milk.

Such a wide range of activities necessitates the strengthening of the staff of the Veterinary Department and the establishment of links and contacts with the villages in the experimental area as through village punchayats, better farming and cattle breeding societies operating in connection with group of villages.

#### 4. Agricultural Marketing.

The work should be taken up along chiefly these lines:—

- (1) A survey of cereal stocks in the *mandis* of the locality, of local marketing charges and practices as well as of transport costs per cart-load and mile in the area;
- (2) The establishment of *tahsil* market committees to deal with cases of fraudulent weighments, unauthorised deductions and other illegitimate practices;
- (3) The publication of prices in the bigger *mandis* of the villages;
- (4) The grading of agricultural produce by the field staff of the Agricultural Department;
- (5) Improvement of present methods of storing grain so as to prevent loss from insects, rats or underground damp;
- (6) The establishment of co-operative sale society giving the benefit of fair prices, of grading and of standard weight to the cultivators.

In all offensives of rural improvement the methods should be the same, *viz.*, the establishment of contacts of the expert field

staff of the Government with a sector through non-official village agencies whether Co-operative Societies, village Punchayats or Zamindars.

##### 5. Co-operation.

The spearhead of economic offensive in the village must be the co-operative movement which in this Province is so moribund. Any lasting form of rural uplift rests on the collective spirit and co-operative endeavour applied to every phase in the social and economic life. Everything can be brought under the sphere of co-operation from afforestation, irrigation and pasture management through credit and sale, to the improvement of agriculture, and live-stock, public health and living conditions. One of the chief causes of failure of co-operative credit is the lack of surplus wealth and food supply of the village farmer. The cumulative increase of the burden of indebtedness restricts agricultural opportunities and saps moral incentives to an extent which in the end defies ordinary means and demands more drastic actions than contemplated before. The Government should be prepared in selected areas to advance money to creditors for part of the debt due to them by the debtors and to assign them bonds guaranteed by the Government for the balance of the debt. The money so advanced and the amount of the bonds may be secured on the debtor's lands. A portion of the debt has to be wiped off after the detailed investigation into the history of each case by a village tribunal in which Government revenue officers should be adequately represented. The tribunal would award a figure which shall not exceed a certain multiple of the rent and revenue. This will not prejudicially affect the creditors who now find that most of their debts are now irrecoverable.

Debt Reconciliation Societies should be started and these should take up each individual case for a fair adjustment of claims between creditors and debtors in the period of falling prices. The amount finally settled may be paid to the creditor by the Co-operative Societies or Land Mortgage Banks.

With this preliminary drive against agricultural indebtedness a fillip to the co-operative organisation may be given along the following directions:—

- (1) Co-operative Societies for rural reconstruction and better living and better farming should be started along with Credit Societies.
- (2) Establishment of Land Mortgage Banks and of Societies for the purchase of agricultural requisites and the sale of agricultural produce.

As in other fields of rural uplift contacts with the village or the farmers should be established not only by direct propaganda of the field staff of the Co-operative Department but also by their direct participation in social life and intercourse. The village has to be converted from a collection of small holdings to a single big farm and agriculture is to be treated as a collective service. The co-operative organisation is one of the weakest spots in the rural economy of the United Provinces and debility in the spine and lumber region has meant an all-round weakness. Special concentrated effort must be made in this branch of village uplift and storm troops mobilised for this purpose in order that the whole campaign may not be weakened.

#### 6. Rural Industrial Employment.

An adequate staff of the Industries Department should embrace the following matters in their field of operations in the selected area:—

- (1) Advising on improvement and reconstruction of processes in village and cottage industries as in the cases of spinning, weaving, tanning, dyeing, basket-making, rope-making and blanket-weaving;
- (2) The introduction and application of modern mechanical implements and tools not yet used in Indian cottage production, *e.g.*, the introduction of the fly-shuttle loom in weaving of gauges, improved saws, planes,

tables and lathes in wood-making, punching and shape-making machine, improved moulds and lathes in metal work, improved oil-presses and power-crushers of sugarcane, etc.;

- (3) The introduction of improved designs which have been prepared or approved by the Arts and Crafts School, Lucknow;
- (4) Collecting and diffusing information related to marketing;
- (5) The Department of Industries should in the selected area supply cheap motors to the peasants and artisans on a deferred payment system spread over a term of years;
- (6) Co-operative Artisan Societies should be organised by the staff of the Industries Department as among weavers, metal workers, cabinet-makers, stone-carvers, lacquer-workers and artistic potters and artisans should be encouraged to buy their silk, gold or silver thread, brass or copper sheets, wood, stone or slag through the Co-operative Societies or through a secondary body to which the society may be affiliated. The artisans should sell their wares only through the Societies.
- (7) New rural industries for which raw materials are available, such as grass, rush or weed, bamboo, cotton, wool, clay and pith may be shepherded by the staff of technical experts at work in the villages.

#### **7. Improvement of Roads and Transport.**

In the area selected for planned rural improvement the District Board and the Public Works Department should take special measures to improve the unmetalled field roads which connect villages with the metalled roads while the streets and village lanes which are now so dirty and sometimes impassable must be improved

by the contributions of labour from each household and the employment also of boy labour for this purpose under the supervision of the elders. The problem of road improvement and development in the villages should be a part of a planned regional programme of road construction.

### 8. Rural Housing and Sanitation.

In the central and eastern districts of the United Provinces villages have swelled in size without any regard to any scheme or plan. The huts are thickly massed at all angles in the congested village sites and are without light and air. An appalling congestion is also evident. Even cattle and goats are packed together with men, women and children and there is little decency or privacy. Sometimes the older men have to sleep outside under the trees or erect temporary sheds near the fields.

Improvement in rural housing should be taken up in the selected area along chiefly these lines—

- (1) Replacement of thatched roofs by tiles;
- (2) Extension of the cottages, to have short verandahs on the face, and the provision of windows;
- (3) The building of separate cow-sheds or out-houses for the animals;
- (4) The planning of village streets and lanes with reference to the temple, school-house and village meeting place.

A campaign against the rural slums and the provision of the villages with sanitary and decent cottages demands concentrated work and the field staff of sanitary inspectors must be increased in numbers while as in every other case of rural uplift a closer link is to be created as through village Punchayats, Sanitary Boards and Boy-Scout troops.

### B

Special ameliorative and protective village work is imperative in certain parts of the United Provinces where the agricultural

situation seems gradually to head towards a crisis. In the south-western portion of the Ganges-Jumna Doab the limits of canal and well irrigation seem to have been approached so far as the existing technique and bullock power at the command of the peasantry is concerned; while the gradual decline of the water-table which is accelerated after the cycle of drought years not only increases the strain on human and cattle power but also diminishes its returns proportionately. In this region the decline of agriculture and population now challenges the most concentrated economic offensives.

These may begin chiefly along the following directions:—

- (1) Assistance to the peasants in the construction of masonry wells by means of a generous system of *takaris* and the maintenance of a boring staff in each *tahsil* which will undertake well surveys and locate sites in doubtful areas.
- (2) The extension of hydro-electric gird into the dry tracts of Agra, Muttra, Etah and Etawah as well as of the Upper Doab, which cannot at present be commanded by canal irrigation and the establishment of a network of State masonry wells fitted with electric motors and tube-wells, wherever conditions are suitable, from which water may be supplied on a wide scale to the cultivators, the time for payment of water rates being carefully adjusted to crop harvesting conditions.
- (3) The supplementing of canal water supply by state-owned tube and masonry wells in the Upper Doab, and the release and utilisation of canal water by extending and expanding existing canal distributaries in the dryer Muttra-Etawah zone.
- (4) The organisation of Co-operative Irrigation Societies bringing together small holders who may thus obtain the benefit from state-owned tube and masonry wells.

- (5) The encouragement of zamindars in the construction of tube-wells for the supply of irrigation water for himself and his tenants; the Government limiting the maximum water rate he could charge and specifying the well he could instal.
- (6) The substitution of the Persian wheel for the *charsa* in all masonry wells now in use.
- (7) The lining of the irrigation courses by tiles or use of hard-baked pipes to prevent leakage and percolation.

Much more important in the fight against desiccation in these tracts are:—

- (1) The planting of a chain of village groves and forests and introduction and propagation of suitable defensive vegetation against the encroachment of loose sands which have been set free by the disappearance of scrub jungle and grass. The Government should offer land revenue remissions for village afforestation by the zamindars.
- (2) Prevention of soil erosion and the conservation of moisture and grass by the building of bunds, field embankments and drainage works, especially in the ravine-striken areas.
- (3) The introduction of suitable fodder and crop rotation which may prevent a further increase of arid conditions.

As far as the above schemes of economic planning are concerned these outstanding points stand out if any marked improvement is to follow:—

- (1) The efficiency of one branch or section hangs on the efficiency of other branches or sections. Without concerted regional initiatives not will only there be a waste of labour and material but there will also be demoralisation due to failure.

- (2) The economic drive can only be successful if staff and materials be concentrated in a few localities creating several effective 'salients' rather than employed on an extensive front over the entire province.
- (3) Such areas of concentrated attack must not be less than an administrative *tahsil*. With smaller units the effect will not be assuring enough and the morale of the country would not change.
- (4) In every kind of drive the local militia, represented by the villagers organised into collective farms, better living societies, sanitary boards, adult training associations, etc., must form the links between the old and the new order through which the expert National staff would strike.
- (5) The renewal of corporate village life and economic authority and management by means of the panchayats which should in the end be equipped with revenue and police functions must be aimed at in all economic planning. Thus alone can we transfer its foundations from government initiative and guidance to the firmer basis of the awakened common sense of the peasant.
- (6) Continuous and intensive propaganda should be adopted by means of pamphlets, posters, village story-telling, songs, radio talks as well as of fairs, exhibitions and competitions of all kinds. Broadcasting as a method of rural education must be effectively employed.
- (7) 'Storm troops' should be concentrated in certain areas in the Agra Division where the enemy has made notable advances and where without a big forward movement there will be a demoralisation along the entire front. In such areas the concentration should cover more than the area of an administrative *tahsil*.

(8) The expenditure on economic planning will amply repay itself through an increase of surplus wealth in the countryside and once the efforts of improvement are visible the change of habits of the people would obviate the assistance and guidance of the state.

## ECONOMIC PLANNING IN THE U. P.

BY

PROF. L. C. TANDON, M.A., M.Com.,

*S. D. College, Calcutta.*

### Need for Planning.

The United Provinces of Agra and Oudh occupies a position of more than average importance in the factory-scale industrial system of India. In 1932, she had 505 factories with over one lac of workers. From the agricultural point of view, her position is unique in the country. There are 105,640 villages and only 441 towns. 80 per cent of her population depends directly on agriculture.

The condition of her cultivators is very miserable. Recent enquiries have shown that about 40 per cent of the agriculturists are so seriously involved in debt that they are no better than slaves of the money-lender; that another 20 per cent obtain their working capital from him and that about 40 per cent are farming on their own capital. To add to their misery, fall in prices since 1929 has come. In other words, the value of money has increased by 50 per cent. An agriculturist who possessed property worth Rs. 5,000 and borrowed Rs. 2,500 finds that the value of his property has fallen to Rs. 2,500 and that in terms of goods his loan has doubled itself. The Provincial Government, on account of sudden fall in prices, was compelled to take recourse to remission of rent and revenue. During 1930—33, the Government on an average sanctioned remission of Rs. 407 lakhs of rent and Rs. 112.9 lakhs of revenue per year. Even these liberal remissions were found to be inadequate by the cultivators.

He is too illiterate, ignorant and poor to move to cities to take advantage of a job either in a factory or with a private individual.

Conditions in cities are not very hopeful. Business has suffered a great deal. Internal and external trade has declined considerably. Unemployment amongst the educated middle classes has shown an upward rise. Although correct statistics are not available, but the truth of the statement is accepted on all hands.

It may be mentioned that the United Provinces is not alone in these miseries. The whole world is passing through a similar state of affairs. Statesmen and economists are busy finding a remedy. Economic planning has caught the imagination of the people everywhere, and it would be no exaggeration to say that it has even come to stay.

Russia was the first to make an experiment of this type. After the revolution of 1918, means of production and distribution have been nationalised. She adopted the famous first five-year plan in 1928 and another in 1933. Perhaps, her realisations have fallen much below the expectations of the originators of the idea, but one thing is certain that their productivity has increased considerably. Italy, Germany and the United States of America are some of the important countries which are trying experiments in the same direction, but on a different basis. The state in the United States of America has fixed wages codes in different industries and given financial help on a large scale to needy concerns. Devaluation of the dollar and restriction of imports, etc., have also been taken recourse to.

#### **General Outline.**

We, in the United Provinces or for the matter of that in India, cannot think of economic planning, on communistic lines. The thesis of this paper is to place before the readers a plan that will find favour with the Government and also with the people.

At the very outset, it may be mentioned that a Development Officer should be appointed. He should be a highly educated and widely travelled officer. He should be assisted by three assistants, one—incharge of agriculture, second—incharge of cottage industries and rural means of communications and the third—incharge of major industries and urban means of communication.

Under these officers, there would be economic planning officers one for each district.

The local Government maintains seven nation building departments, *viz.*, agriculture including horticulture, co-operation, irrigation, sanitation, medicine, education, marketing and veterinary. Each of these departments will have its officers in each district. They will be for matters of routine and administration under their own heads. The planning officer in each district will supervise their work and advise them to do or not to do a particular thing.

The heads of the seven departments together with six non-official members, representative of commerce, industry (cottage and major) and trade will constitute "Provincial Economic Planning Board." The Development Officer will be the ex-officio Chairman. One of his three assistants will act as the Secretary. At least once a month, the meeting of the Board must be held.

The Development Officer will co-ordinate the work of his assistants and will represent the United Provinces Government in All-India organisation whenever it comes into existence.

The Development Officer should place before himself the following ideals:—

- (1) To exploit the natural and economic resources.
- (2) To raise the purchasing power of the people and their standard of living.
- (3) To bring about an equilibrium between demand and supply, either by putting schemes of restriction on production or encouragement, as the case may be.

It is important to remember that no scheme should be either for the benefit of a class or individual aggrandizement.

### **Rural Planning.**

The United Provinces has over one lac of villages. To attack every village at once will involve financial burden that may be impossible for the Province to bear at present. It would, therefore, be desirable to select three or four districts to begin with, in which the whole attention of the officers may be concentrated for one year and then gradually extend the field of their work to other districts taking advantage of the experience gained.

The working of rural planning may be divided in the following sections:—

- (a) Consolidation of holdings.
- (b) Agricultural Indebtedness.
- (c) Methods of cultivation, arrangement for seeds and storing of produce.
- (d) Marketing of produce.
- (e) Education.
- (f) Sanitation and housing.
- (g) Improvement of cattle.
- (h) Fruit cultivation.
- (i) Dairy and Poultry farming.

#### **(a) Consolidation of Holdings.**

The evil of sub-division and fragmentation of holdings has been recognised by people generally all over the country. There

are two ways of facing the problem: (1) legislation and (2) persuasion. Persuasion has been tried with success in the Punjab. Hundreds of acres of land have been consolidated and the idea is proving contagious. In the U. P., consolidation of holdings is in progress in Bijnor, Moradabad and Saharanpur districts, but not much has been achieved.

It may be mentioned that persuasion alone will not achieve the desired object. We will need (1) financial help for registration of lands, (2) legal help to bring round a rebel who would not hear arguments. The Government may either exempt the registration of lands from stamp duty or advance the necessary sum of money to the Development Officer to be given free to those who agree to consolidate their plots of land.

The object of the District Planning Officer should be to make the holding of each cultivator economic. What is an economic holding? It will depend upon the nature of soil and climate of a particular district.

The District Planning Officer should carry on intensive propaganda in favour of consolidation. In this work, help from non-official member should also be taken. The Government can get it very easily by giving titles to those gentlemen who render very useful services in this direction.

#### **(b) Agricultural Indebtedness.**

The question of rural indebtedness is very important. It has recently been threshed by the Government. The United Provinces Banking Enquiry Committee estimated rural indebtedness at 120 crores in 1929. The incidence and amount of the debt has since then increased between 50 per cent and 100 per cent. The Government appointed 'Agricultural Debt Enquiry Committee' in September 1932. As a result of their recommendations, the Government has placed before the local Legislative Council five bills, viz.:—

(I) The United Provinces Agriculturists' Relief Bill.

- (II) The United Provinces Reduction of Interest Bill.
- (III) The Usurious Loans (United Provinces Amendment) Bill.
- (IV) The United Provinces Regulation of Execution Bill.
- (V) The United Provinces Encumbered Estates Bill.

It is expected that these bills will soon be put on the statute books. They will relieve the debtors, but this is not all. Conciliation boards should be appointed. Such bodies have proved very useful in the Central Provinces and their popularity is increasing every day. There is no reason why they should not become popular in these Provinces.

The debts of the agriculturists are of two types: (a) long term loans and (b) short term loans. Long term facilities cannot be provided by the co-operative credit societies.

The Debt Enquiry Committee recommended the immediate establishment of land mortgage banks in districts for providing long term credit facilities, with Provincial land mortgage bank at the centre. The Government should (1) subscribe 20 per cent of the Capital of the Bank if it is not subscribed by the public in full, (2) guarantee dividend of 4 per cent on capital issued, (3) guarantee interest on all debentures for the period of their currency and (4) declare the debentures trustee securities. So far, nothing has been done in this direction. It is high time that these institutions are soon established.

As for short term loans, the agriculturists depend on co-operative credit societies and on money-lenders. It is a matter of great regret that co-operative credit movement has not made that progress which it was expected to do. In 1928-29, the total working capital of all societies stood at 218 lakhs. As against this the total indebtedness stood at 120 crores. It is clear that the co-operative credit movement has been able to achieve proportionately very little. It will be the object of the District Planning Officer to see that every village in his district has a co-operative

credit society. It is very necessary that there must be a central (Provincial) organisation.

**(c) Methods of Cultivation, Arrangement for Seeds, etc.**

Important crops of the Province are wheat, rice, 'arhar dal,' gram, linseeds, barley, sugar-cane and raw cotton. In order to improve their quality, it is necessary that good quality of seed is used. The testing and acclimatisation of new farms of seed should be the principal function of experimental farms. These farms should be made centres of distribution of seed also.

It is not only sufficient that the cultivator produces good quality of crop, but he must have proper arrangements for storing and grading.

The services of the farm officers may be utilised for this purpose.

Coming to the use of improved machinery, it may be said that the state should purchase implements, and give them on hire-purchase system to the cultivators not directly but through co-operative societies.

**(d) Marketing of Produce.**

The marketing of agricultural produce is a difficult problem. The peasant lives in the village usually cut off from the town where alone he can sell his wares. Consequently, a large number of intermediaries come in. The village mahajan is usually one of them. The poor cultivator loses a very decent proportion of profits to which he is entitled. When he comes to a *mandi*, he has to pay a number of taxes like 'palladari' weighing charges, doles for charity, etc.

Just as a 'beopari' links the village with a small *mandi*, so the 'Kachcha arhatia' is the link between the small *mandi* and the big organised market. Then comes pakka *arhatia* who connects the bigger *mandi* with sea-ports, where they usually have their head offices.

A survey of these 'mandis' must be undertaken by the marketing officers. There should be in each district market committees to deal with cases of frauds and to publish prices.

Co-operative sale societies should be pushed in villages.

**(e) Education.**

LITERACY BY AGE AND SEX (CENSUS 1931)

Number per mille who are literate.

all ages 5 and over

	Persons	Males	Females.
United Provinces	·55	94	11
Madras	108	188	30
Bombay	108	176	31
Bengal	111	182	33

The above figures have a very sad story to tell. Only 55 persons out of 1,000 are literate. If we assume that only elementary education is to be given, even then we have to provide for 6,000,000 (males and females), children (between 5—10 years). Dr. Beni Prasad of the Allahabad University in his presidential address of the United Provinces Secondary Education rightly said that a ten-year plan for educating the masses should be adopted. I should think that unless people are educated in the three R's, it is impossible for agriculturists to grasp the principles of co-operation or protect themselves against the inroads of 'mahajans' or 'arhatia.'

It is important to remember in connection with any scheme for rural education that it would not be possible for cultivators to send their children for 12 months in the year, because they help their parents in looking after the cattle, weeding out wild grass, etc. In order to make education more popular in villages, it would be necessary to appoint itinerant teachers for some time. The characteristic feature of their education would be to have agricultural bias.

**(f) Sanitation and Housing.**

These have a lot to do with the efficiency of cultivators. They must appreciate the advantages of neat and clean surroundings and well-ventilated homes. Each village should have a welfare society, which should look to the following things in particular:—

- (a) Latrines are removed far away from houses.
- (b) Cultivators learn to collect night-soil, human excreta, cowdung, ashes, etc., in one place outside the 'abadi' and use them as manure.
- (c) Regular campaign against malaria and tuberculosis should be carried on.
- (d) Proper arrangements for well-trained *dais* should be made.
- (e) Baby week, once a year, should be organised.
- (f) Government should start "moving dispensaries" and people should be taught to take their advantage.
- (g) Girl guide and Boy Scout movement should be popularised.

**(g) Improvement of Cattle.**

India depends on buffaloes and bullocks for the supply of power that agricultural industry needs. India worships cow, but it is just in our country that cows are least cared for. They have very poor health and their power of resistance is practically zero. Any disease is good enough to take a heavy toll. The following steps are needed to improve the breed of bullocks and buffaloes:—

- (1) Survey of fodder should be carried on. An attempt should be made to provide every district with necessary quantity of fodder.
- (2) Proper arrangements for storage of grass should be made.

- (3) An intensive propaganda should be carried on in favour of inoculation against rinderpest.
- (4) Australian or healthy bulls should be purchased and distributed all over the province. They may be maintained at farms, and a nominal charge be made for covering cows. This would be sufficient to meet their maintenance charges. In order to prevent unhealthy breed, scrub bulls must be castrated.

Cattle shows, if organised frequently, will help the improvement of cattle considerably.

**(h) Fruit Cultivation.**

Fruit gardening is an industry which ought to be developed on two lines (1) an industry by itself and (2) a by-industry to agriculture. This industry has a very bright future. Some time back Mr. R. G. Allen, Director of Agriculture, issued an appeal for the formation of Fruit Development Board. His efforts were crowned with brilliant success.

The Board now is an established fact. It is a matter of regret that the consumption of fruits in India is very low. In the United Kingdom the consumption of fruits has increased from 70.4 lbs. in 1925 to 79.9 lbs. in 1931 per head. These figures present some of the effects of organisation and propaganda. The United Provinces has to depend on the Punjab, Kashmir, Japan and California for the supply of apples. Dehra Dun and Naini Tal can develop very good orchards.

Mango is the richest known source of vitamin and is also well supplied with vitamin A. Lucknow and Benares are famous for their 'Safeda' and 'Langra' respectively. The Fruit Development Board should try not only to improve their quality but to increase home consumption and foreign trade in them. Allahabad is well known for guavas. But good quality guavas can be had only from one or two gardens. It should be the constant endeavour of the Board to grow that stuff in other parts of the district also.

Experimental and demonstration orchards should be established in different parts of the Province. It would be necessary to appoint one orchard expert under the Director of Agriculture. He ought to be assisted by half a dozen inspectors, who should constantly be on move and advise the people.

#### (i) **Dairy and Poultry Farming.**

It is a matter of regret that dairy industry is not at all developed in our Province. Whatever dairies exist, they have been organised by the military department. Amongst private concerns, Dayalbag (Agra) Dairy and the Aligarh one deserve special mention, the former is controlled by the Indians and the latter has European management.

Our province is a very great consumer of 'ghee'. It is becoming increasingly difficult to get good quality of ghee in the market. These dairies can supply guaranteed pure ghee and save a lot of botheration to the consumers.

Agra district had in 1932, 23 co-operative ghee societies. All these institutions made profits. The example of Agra can with advantage be followed by other districts.

The Development Officer should carry on intensive propaganda in favour of drinking more milk.

Poultry farming, too, has a bright future. There are certain difficulties in its adoption by all the cultivators. The Hindus have sentimental objection. The Muslims have no objection. What they need is supply of better cocks and hens. If proper arrangements for their marketing could be made, the purchasing power of the cultivators will certainly increase. Last year, a consignment of eggs was sent to England. It reached there safely and commanded a good price. If such consignments are sent regularly to foreign countries poultry industry will get the much needed fillip.

#### **Cottage Industries.**

Calvert in his 'Wealth and Welfare of the Punjab,' estimates that the average cultivator in that Province barely finds work for

more than 150 days in a year. This is a tremendous waste of labour power. The position in our own Province is not different from that of our neighbours.

The chronic complaint of the producers is their poverty and incidental dearth of capital. They are inextricably in debt to money-lenders, with the result that they cannot either buy good raw materials or use good machinery. The adoption of co-operative methods will do away with their difficulties and greatly help the cottage producers—

- (a) by providing cheap capital;
- (b) by helping them to purchase good raw materials, improved machinery, etc.;
- (c) by providing markets for products of cottage industries.

The development of cottage industries will provide an additional income to the agriculturist. The United Provinces Government surveyed the cottage industries of the Province districtwise about ten years ago. Although their reports are now out of date, still, they can form a very good starting point.

The chief cottage handicraft is the manufacture of textiles,—cotton, silk, woollen and mixtures. Recently flyshuttle has been introduced, and this is a great improvement. Benares and Saharanpore have become big silk producing centres. There are a number of other cottage industries like leather making and working, blanket making, manufacture of brass and copper ware. Coming to artistic cottage industries, we find that their position is also very weak. Their chief difficulties are: (1) absence of a market, (2) failure to keep pace with the artistic tastes of the people in the matter of designs.

Some of them are: Moradabad and Benares brass wares, gold and silver brocade and embroidery, artistic wood-work, artistic pottery, jewellery, gold and silver ware, "chikan" work of Lucknow, printing on silks and cotton cloth at Farrukhabad and Lucknow.

The Local Government, in order to encourage the sale of products of artistic cottage industries, established Arts and Crafts Emporium at Lucknow in 1919. This institution has fallen much below expectations. It has not been able to push much the sales of their products in the country or in foreign markets. In fact, sale in foreign markets declined by more than 50 per cent during the last 5 or 6 years. It is suggested that Development Officer should proceed on the following lines:—

- (1) Encouragement of co-operative societies for the purchase of raw materials, machinery and sales.
- (2) One or two, according to demand, textile designers should be appointed, who should place before the cottage workers designs that will find favour with consumers.
- (3) A few travelling agents who should push sales not only in the Province, but in the neighbouring provinces also.
- (4) In important towns like Calcutta and Bombay, some agents for purposes of sales should be appointed on a commission basis.
- (5) An attempt to push sales in England, the United States of America, etc., should be made. Regular participation in exhibitions would be very desirable. Further, when All-India Planning Organisation comes into existence opening of a permanent showroom in London, New York, Paris, etc., may be considered. In order to develop their sale in foreign countries, advantage should be taken of Trade Commissioners.

In this connection, mention must be made of the Ganges Canal Hydro-Electric Development that has recently taken place. Seven districts, Saharanpore, Muzaffarnager, Meerut, Bulandshahr, Aligarh, Moradabad and Bijnor with an area of 11,000 sq. miles will be served with electricity.

The Irrigation Department has made special tariffs for agricultural and industrial purposes. For agriculture, power is supplied at a flat rate of one anna per unit or nine pies per horse power. Three alternative schemes are being tried in industries. The use of electricity in factories is increasing every day. It is expected that when all the remaining six falls are harnessed, it would be possible to reduce the charges by at least 25 per cent of the present level.

The development of electricity should encourage the use of light machinery in agriculture, the establishment of cottage industries in new centres and increase in the produce of the existing concerns. Co-operative Societies for the purchase of machineries and for irrigation should be encouraged.

#### Major Industries.

The major industries of the Province are textiles, sugar, leather and oil. Their success apart from their own organisation, depends upon world currency, manipulations, protective duties, bounties given by foreign countries, etc. These are the problems that lie beyond the province of a local Government. They are in the hands of the Central Government. Sugar industry was given protection a couple of years ago. One of the conditions of protection was that if the price of foreign sugar fell in sea-ports so much that its benefit disappeared, the protective duties must proportionately be increased. Java Sugar has been dumped in India during the last few months. In spite of representations from all-India Sugar Manufacturers' Association, nothing has been done so far. Thus it is clear that the extent to which a Provincial Government can help such industries is very limited. They should provide facilities for technical education and encourage the establishment of a Provincial Industrial Bank. If such an institution comes into existence, half the battle is won, as their greatest difficulty is financial.

The Bank will assist from its own capital and issue debentures. Interest on debentures should be guaranteed and they should be

declared trustee securities. Moreover, the State should undertake to subscribe capital to the extent of 20 per cent, if it remains un-subscribed by the public and should guarantee subscription of debentures.

The Development Officer should try to encourage the manufacture of manures in this Province. The Punjab Government has recently given a contract to the Indian Chemical Industries, Ltd., for a period of fifty years. This action of the Government has been very strongly criticised in the Legislative Assembly and the press, because the concern is entirely foreign. One thing is, however, clear that the supply of cheap power has enabled the exploitation of the earth. A case has been made in the above lines for the establishment of heavy yielding crops which would naturally exhaust the soil more and require manures in larger quantity. Hence the need for encouraging manufacture of manures is the greatest to-day.

#### Means of Communications.

The construction and maintenance of roads at present is in the hands of the following:—

- (a) Provincial Roads—Public Works Department.
- (b) City Roads—Municipalities.
- (c) District or Rural Roads—District Boards.

Motor Cars and lorries are subject to three types of taxes.

- (1) Central in the form of import duties.
- (2) Provincial in the form of registration fee.
- (3) Local taxes.

The United Provinces Government will now under the new Motor Tax Act take away the powers of taxing from local bodies, and levy only one Provincial Tax. In addition to this the Government has announced its intention to float a loan of Rs. 80 lacs,

This amount will be spent on the construction of new roads in rural and urban areas. When these roads are ready, it is expected that the rural life will be revolutionised for the simple reason that agriculturists and cottage industrialists will be able to bring their wares easily to the markets.

#### **Conclusion.**

An attempt has been made in the above lines to place a scheme, which if followed for a period of twenty years, would revolutionise the economic life of the Province. It would, however, be necessary to review the effects of the plan every five years, and in the light of experience so gained, modify the future programme. Whatever scheme of economic planning be adopted, it is necessary that self-interest and initiative be maintained in tact within limitations, as a spur to economic activity.

## SOME ASPECTS OF ECONOMIC PLANNING FOR INDIA

BY

DR. B. V. NARAYANASWAMY NAIDU, M.A., B.COM.,  
BAR-AT-LAW,  
*Annamalai University*

What with the unexampled post-war depression in almost all countries of the world and what with the various economic experiments in Russia the question of planning has become a live issue in all civilized countries of the world. One of the most outstanding effects of the War has been to instil into the minds of politicians and people the necessity for national self-sufficiency and conservation and utilization of national resources to the best advantage of the largest number of the country's nationals. In short, nationalism has ceased to be racial and territorial but has extended to the field of economics so that it has been realised that wisdom and fore-thought are essential in the ordering of the economic life of a people as much as in the organisation of their political and military life. Ordering of the economic life of a people on national lines has been, therefore, a post-war phenomenon.

In recent years Russia has attempted by detailed planning to outstrip in production even the most advanced capitalistic countries of the West perhaps with the idea of a spectacular demonstration of the superiority of socialistic organisation to a capitalist ordering of society. Since March 1933 President Roosevelt, recognising the importance of comprehensive planning for curing the malaise from which the whole economic life of the country was suffering, has embarked upon an unexampled course of state initiative in the economic adjustment of the nation. The main aims of the Roosevelt Recovery plan are to limit the motive of profit making in industry, to effect a more equitable adjustment

of national income and, in general, to subordinate individual interests to the needs of the vast majority of the people. In 1933 an unparalleled national crisis leaving in the hands of the state 14 million unemployed workers cried aloud to the President to undertake immediate and drastic action. Besides this, short-time work was in existence, and the banking system of the state was crumbling down. The currency was insecure and national confidence in the system under which they lived was being rapidly undermined. Hence President Roosevelt found it necessary to introduce drastic changes in the organisation of the production and currency of the country. The threatened shortage of food-stuffs in Britain during the War, the restriction of her foreign markets as a result of the increasing industrialization of the countries involved and the consequent disturbance to her industries and currency have induced Britain also to seek for new methods of ensuring national economic stability. Conservative as ever, she has not embarked in any scheme of comprehensive planning but has tried to patch up her economic fabric by state encouragement of industries, by concluding commercial pacts with other countries and by trying to retain for herself imperial markets by pacts like those signed at Ottawa. Plans for national economic improvement have been adopted in their own differing ways by Kemal Pasha in Turkey, Mussolini in Italy and Hitler in Germany.

Alone of civilized countries, India has not yet adopted any systematic economic planning. While socialistic Russia has resorted to planning in a spirit of competition with capitalism, while America was compelled to resort to it to avert a grave national crisis, while various countries coquette with the idea for the sake of new national aggrandisement or the preservation of old dominance, India has to resort to it in self-defence, so that she may keep pace with the extremely complex economic organisation of her foreign competitors, out of mere humanitarian consideration for the millions of her nationals whose income is insignificant and whose purchasing power is the lowest on record in any civilized country. It should be the primary duty of the state in India to conserve and

utilize the economic resources of the country for saving the hungry millions of her population from starvation and misery.

Planning, therefore, which is so essential to the continued progress of nations at the present day, means simply an adjustment of means to ends. Just as the individual prepares clearly before himself a programme of work before he starts working for a definite goal, planning places before a nation a clear objective and a programme of activity suitable to the circumstances of her case and necessary for her progress. Instead of allowing chance and whim to govern the development of nations, reason and humanity must assume control and work the resources of the country to the best possible purpose. Accurate and extensive knowledge of the resources of the country, as far as that is humanly possible, is no doubt involved in all ideas of planning. Planning presupposes, therefore, a sound knowledge of economic conditions, a definite goal for economic activity, and a fixed period of time in which the goal is to be reached. At first sight it might appear that the third element is not essential; but it is no exaggeration to say that only a definite and fixed period of time will induce men to put their best foot forward and help to raise up production to as high a pitch as the country can possibly attain.

Planning in India should be undertaken not with the intention of developing our export trade or for curbing excessive industrialization but merely for national utilization of available economic resources for the greatest happiness of the greatest number. Immensely rich in her natural and human resources, India remains a paradox in the economic field since the vast majority of her population is in the grip of indigence and starvation. The appalling poverty of her rural population and their excessive dependence on agriculture has become a commonplace of economic thought in this country. In the face of such a problem of illiteracy, indigence, suffering and hunger of such a large mass of humanity combined with the extraordinary wealth of material and mineral resources in the country it seems to be astonishing why effective and comprehensive action is not taken to diminish the illiteracy, to

satisfy the hunger and to improve the physique of the people by utilizing the abounding resources of the country in all possible ways to the utmost possible extent. Death and disease, ignorance and squalor, starvation and poverty must be blotted out from the face of India and this can be done only by increased industrialization of the land. India must cease to be a provincial farm, growing raw materials for foreign industry and a dumping ground for the finished goods of alien enterprise. The dependence of India on foreign markets is neither indispensable nor beneficial. India is well-adapted to grow whatever her children need for their sustenance. This land abounds in the pre-requisites of industrialization, men, money, materials and motive power. All that is wanted is concerted and patriotic action of a far-sighted nature. Industrialization will solve the problem of inadequate employment and relieve the strain on agriculture which itself stands in need of far-reaching readjustment. Increased productive power must mean larger incomes, greater comfort and increased happiness.

But the word 'industrialization' is suspect in certain quarters. I believe this is due to the mistaken notion that organised industry must mean greater exploitation of the masses by the moneyed classes, the rich growing richer and the poor poorer. Neither concentration of wealth nor slum life are inevitable features of industry. Industrialization simply means organised and planned effort towards greater production; but this production can be adjusted to the needs of Indian village life. The only thing that is pleaded for is that in the reorganisation and revitalisation of village life the door need not be banged in the face of modern mechanical advance nor systematic production. Thanks to cheap electric power it is yet possible that India's vital life can continue to be centred in the villages, each village producing the utmost it is capable of by wise organisation and united endeavour. It is the task of wisdom to find out how modern progress can become a willing and useful servant to the millions of India.

Agriculture, irrigation, transport, education, industries, public health and other phases of national activity must come within the

ambit of national planning. To map out in detail this vast area to be covered must be an achievement of the labours of years. All that is attempted here is to indicate lines of advance which will be most beneficial to the interests of the nation. For a successful working of any plan a clear demarcation of functions as between the Central and Provincial Governments is necessary. Subjects like currency, customs, railways, and tariff can be tackled best by the Central Government while the development of agriculture, irrigation and industries can be undertaken with advantage by Provincial Governments.

### Industries.

That India's actual industrial development is entirely disproportionate to her potential resources, considering her size, population and material wealth, is admitted on all hands. This state of things is in no small measure due to the fact that her captains of industry and leaders of thought have not yet fully realised, much less utilized, the wealth lying at their very doors. The resources of the country have not been sufficiently harnessed to progressive activities by the enterprising and intelligent portion of the population. Deficiency in leadership and lack of technical labour are the two prime factors which must answer for India's industrial backwardness. Want of systematic financing and absence of adequate facilities must also bear some measure of the blame. This unsatisfactory state of things can be changed by a national economic policy by which the Government should attempt to encourage Indian Industries in every way that it can. Machinery and other raw materials of production can be admitted to the country free of duties, the burden on semi-manufactured goods can be lightened, adequate finance can be provided and facilities given for general, technical and industrial training by establishing technical schools and industrial laboratories. But the greatest benefit that Government can confer on industry is helping in the financing of industry. Capital is the backbone of modern industry which is organised on lines of large-scale enterprise, mass-

output, and standardised production. Government must pursue a liberal policy of loans and subsidies to industries and so shape the working of the banking system of the land as to compel the banks to keep in close touch with national industries. Such a policy should involve the disappearance of the pernicious managing agency system and an extension of the activities of commercial banks. The needs of industry must be met in some measure by a re-orientation of policy on the part of the existing commercial banks by taking an increasingly active part in the issue of shares and debentures and by the establishment of a net-work of Industrial Banks throughout the important cities of India. Such banks can not only provide funds for adequate industrial expansion but can also serve as connecting links between industries and investors by giving useful technical advice. These banks should be helped by Government, if need be, even by taking shares themselves, thus securing public confidence in them.

### **Agriculture.**

Turning to agriculture, again, we find a similar disproportion between its importance to the country in view of the almost total dependence of the people on it and the extremely inadequate attention paid to its development. When compared to other countries, the yield per acre in India is ludicrously low and little attention is paid to scientific manuring and improved methods of cultivation. The extreme fragmentation of the holdings and the indebtedness of the agriculturist have brought agriculture to a position of standstill where the cultivator follows exactly the methods which satisfied his forefathers centuries ago. The problem of indebtedness has to be solved by provision for debt-conciliation, by a simplification of rural insolvency procedure, by an adequate supply of long-term credit and by the establishment of Land-Mortgage Banks. To improve the methods of agriculture an agricultural bureau must be established in each district to give advice about mechanical appliances, fertilisers and marketing and to arrange for agricultural demonstrations. The spread of co-

operative buying and selling will also be of considerable importance in the development of agriculture. Subsidiary occupations like dairy farming, cattle breeding, bee-keeping and poultry farming should also be encouraged by helping the peasant by a liberal provision for grazing lands, by importation of superior breeds and by arranging for technical instruction in improved methods.

The proper development of agriculture is closely bound up with the question of agricultural marketing. The recent phenomenal landslide in prices is in no small measure due to lack of proper marketing facilities and it cannot be denied that even in the most prosperous days the Indian agriculturist never got the maximum price that his commodities could have fetched. It is a common phenomenon in this country to find the agriculturist trying to sell his produce as soon as the harvest is over even though the market is glutted with the same goods and the prices have fallen. He undertakes to do this since he has often to meet the insistent demands of his creditors, to pay the kist or other seasonal obligations, or has no facilities for safe storage and hence he invariably sells at the lowest price and thus gets a scanty return for his labours. He labours also under many other disadvantages that arise from lack of standardised weights and measures, absence of grading, want of proper inspection of goods, secret settlement of prices by agents and brokers and the use of false and incorrect weights and measures. While these are his difficulties in the internal market which accounts for more than a 1,000 crores out of 1,200 or 1,300 crores worth of agricultural produce his disabilities in the external market are none too light. The absence of a unified selling organisation has not only resulted in unsettlement in the quality and specifications of goods and consequent ignorance in foreign markets of the real quality and quantity of his merchandise but it has also resulted in lower prices for his wares, deficiency in advertisement and in the creation of an impression in other countries that India cannot supply high-grade products.

These difficulties cannot be overcome without taking into account the essential functions of marketing, viz., collecting and assembling,

transportation, wholesale distribution, retailing, risk-bearing and financing in all stages. To my mind the foremost remedy for this state of things is the establishment of Sellers' Co-operative Societies which will prevent seasonal dumping, help the ryot to get credit till his goods are sold, store his products and arrange to release them for sale at proper intervals. Such organisations can improve the merchandizing practices, help in the careful grading of commodities, provide for improved methods of advertisement, regulate the quantity and quality of supplies to different markets, increase the bargaining power of the producer and eliminate trade abuses. This will tend to greater economy in marketing and serve to restrict the activities of middlemen. Such associations may be formed for definite areas and linked together in a central organisation.

The problem of agricultural marketing cannot be solved without improved communications, increased transport facilities and lessening of freights. A chain of private or railway warehouses has also to be established to facilitate storage of goods; and the vouchers of such storage can be given by law the validity of negotiable instruments. The grave handicap of indebtedness and lack of credit must be removed by the formation of financing companies for the marketing of goods and by a liberal provision for agricultural credit by the Government. Government must also adopt stringent and continuous measures to stamp out adulteration and enforce standardized weights and measures. In addition they should appoint provincial marketing officers to collect and co-ordinate marketing information and make it available to the producers. Each province should also have regional marketing boards to assist the marketing officer and regional agricultural chambers wherein the producers can meet to discuss problems such as those connected with finance, production and marketing.

#### **Irrigation.**

Any study of agricultural development must take into account the problem of irrigation. The Indian peasant depends for his

cultivation entirely on the monsoon and any failure of it or excess means starvation and ruin to him. The overmuch dependence of the agriculturist on the vicissitudes of the seasons will be realised when one notes that only 16 per cent of the cultivated land is irrigated from tanks, rivers or wells and the remaining 84 per cent is entirely dependent on seasonal rainfall. A comprehensive scheme of irrigation is urgently needed in each province and any well-conceived policy of irrigation should devote greater attention to minor works. Introduction of modern pumping plants, construction of tube-wells, digging of new tanks, wells and canals from rivers, building of reservoirs and the supply of cheap power for pumping and other purposes will go a long way to the solution of the problem.

### **Transport.**

Closely connected with the development of industries and agriculture is the question of a comprehensive scheme of transport. In any scheme of transport railways naturally occupy a very important place. Railway development in this country in the past has not taken sufficient account of the markets and the centres of production. This defect has to be rectified by having a definite plan of railway development which will make easy not merely the import of goods from outside but also the export of goods from the centres where they are produced. The increasing importance of motor transport at the present day has once again drawn attention to inland roads. Though roads need not be developed to compete with the railway they can serve as feeders for railways and channels of distribution. Though railways, posts and telegraphs must continue as a central concern there is ample scope for provincial Ministers of Transport and Public Works who will take the improvement of the road system as one of their main concerns. One of the best means of improving transport is the development of inland waterways. Since the war a comprehensive programme for the development of inland waterways has been drawn up in France by the Minister of Public Works and schemes like those

of the grand canal of Alsace and the Marseilles-Rhone canal have aroused international attention. The French Government has been making increased provision for ordinary upkeep and repair as well as for new construction and improvements and the budget for 1926 provided more than a hundred million francs for this purpose. Germany also has undertaken such works and given state encouragement. The Rhine-Maine-Danube works, the canalisation of Neckar and the linking up of Hamburg with Bremen and the Westphalian industrial districts by the Hansa Canal clearly reveal the fostering hand of the state in this development. America also has expended large sums for creating waterways. Careful planning for the future must provide for a system of inland waterways which should be developed not in competition with other forms of transport but as a means of supplementing them.

#### **Pisciculture.**

Another direction in which the material wealth of the country can be exploited is the extension and improvement of fishing and pisciculture. India has got a very extensive sea-board and fish forms a very wholesome article of diet. Attempts should therefore be made to introduce improved methods of fishing even if need be by Government taking the lead in importing fishing trawlers and conducting deep-sea fishing and resigning them to private ownership when they become commercially paying. Fish-curing has also to be made scientific and facilities for inland transport of fish should be increased. Demonstrations of improved methods must be given in selected places and the fishermen taught to adjust themselves to modern conditions.

#### **Cottage Industries.**

In a land of villages the supreme importance of the development of cottage industries can be easily realised. The task of providing remunerative work for the farmer during the off season is one worth attempting, having regard to the fact that an overwhelmingly large part of the population devotes itself to

agriculture. The cottage industries of spinning and weaving need a good deal of improvement. Efficient hand-loom machines, and diversified patterns for weaving are badly needed as well as better advertisement of new methods by demonstrations and of the products of industry by improved methods of marketing. There are many cottage industries in India like metal work, lace-making and ivory-carving which involve a good deal of skill. The Machine threatens these with extinction and lack of enterprise has left them in neglect and decay. The skill of centuries handed down through generations should be conserved and exploited, so that these industries might be brought back into growth and usefulness. A central selling organisation for the sale of such goods will be a step in the right direction.

#### **Industrial Labour.**

Comprehensive economic planning should include not merely organisation and enlargement of productive power but it should also provide for the ameliorations of the conditions of labour. A high turnover of labour is the bane of efficiency and this should be minimised in this country by offering the industrial worker stable and comfortable conditions of work. Though the efficiency of industrial labour has yet to be increased by various methods it is not correct to say that the low efficiency of the Indian worker is due to any inherent inferiority. Often he is supplied only with obsolete machinery and the defects arising from insufficient enterprise and brainless leadership are laid at the door of the poor Indian worker. Amelioration of labour conditions has often been opposed on the ground that industry cannot support increased expense; but very rarely is it proved that enhanced profit has ever gone to the benefit of the worker. It would be a bad thing for Indian labour if it is to be cooped up without air in the slums of large industrial cities. Thanks, however, to modern planning and improved transport industrial suburbs can be built where the worker is sure of healthy housing in country surroundings. Compulsory measures for insurance, workmen's compensation

shorter-hours and welfare schemes have to be introduced by suitable factory legislation. Greater contact between capital and labour can be secured by the institution of workshop committees and industrial councils.

### **Education.**

Neither money nor legislation can make reforms effective or progress possible unless they are helped by the united will of an educated nation. Universal education is the only sure solvent of all national ills and progress, social and economic, is inevitably bound up with the spread of education. To improve the efficiency of industrial labour, to make our countrymen understand the social and economic problems of the complicated modern world, to enable them to observe the laws of health and sanitation, to rouse their civic conscience and to inspire them with a sense of civic responsibility and to give them strength to shoulder the greater and wider responsibilities of political life a concerted drive against ignorance and illiteracy must be immediately undertaken. A planned scheme of compulsory education must provide in every province for the eradication of the illiteracy not only of the children of school-going age but also of adult workers and peasants.

### **Economic Survey.**

All planning for economic expansion must be based on an accurate and extensive survey of existing economic conditions. Statistics on everything that illuminates the future of the people are essential for every nation that wishes to progress. Economic empiricism can at best secure only a hand-to-mouth existence. Since statistics not only record what has been but also point to what may be they form sure guides for the improvement of administrative machinery and for shaping national activity so as to meet new demands. Statistics are, therefore, essential at all times for accurate and quantitative information about the facts of

production and consumption, for wise intervention and guidance by the state and for the efficient functioning of individual enterprise. A survey of this kind should cover production, national income and national wealth, collective wealth, consumption, wages, cost of living, prices and indebtedness. Internal, foreign and coastal trade, transport and communication, condition of crops, yield, crop experiments and value of produce should, all, come within the purview of this survey. A double classification of the population based, one on occupation, and the other on income should also be effected. Intensive studies of classes, communities or families should be systematic and representative, extending throughout the revenue year. The wages and prices statistics have to be collected and intensive enquiries in typical areas, typical crops and typical industries undertaken.

To effect a comprehensive survey of the 422,000 villages of British India is a task of no mean difficulty or of inconsiderable cost. Professor Bowley and Dr. Robertson have recommended a somewhat expensive and inadequate scheme. A work of such a magnitude must depend for its success on the willing and voluntary co-operation of thousands of men; but when once the grave national importance of the work is realised I am sure efficient, voluntary work will be forthcoming if an advance of the right kind is made. It is inevitable that in such a scheme the services of village officers and Government officials have to be secured. Labour and trouble can be minimised if general lines of survey are first laid down after careful investigation. Educational institutions throughout the country can be of great help in the collection of these data if in every institution students are appointed to gather the material under competent guidance. Each province must have a statistician who is helped by a body of officers to co-ordinate this information and make it available to the public. Since a comprehensive economic survey has been unattempted before in this country the difficulties in the way seem to be formidable. Though the first survey may present some difficulty later ones will certainly be easier and more complete.

### **Village Reconstruction.**

Foremost among the advantages that flow from an adequate supply of figures and statistics is the help that they will render in the moulding and shaping of village life. The villages of India are the centres of her vital life and no improvement, economic or social, is worth the name which does not take into account the conditions of life and work in the villages. The chief aim of village reconstruction should not merely be to provide increased occupation for the villager, though even that is a very important step; but it should also be in increasing measure the concern of economic and social policy to remove the disparity between the attractions of the town and those of the country and to provide for those amenities in the country like water-supply, schools, dispensaries and entertainments which have hitherto been the monopolies of towns. Better work and more of it, more leisure, and greater capacity and means of utilizing the leisure—these are the urgent problems of village life in India today.

### **Finance.**

Stern realists are not wanting in this country or abroad who would predict that such ambitious schemes must be inevitably wrecked on the rock of finance. Such schemes are interesting when they are in the stage of speculation but 'where is the money to come from even if a tithe of these is to be attempted?' The contention has often been made that the taxes in India are as high as they possibly can be and the addition of a single straw will break the back of the poor Indian tax-payer. But it has to be remembered the taxable capacity of a people increases with their economic development and prosperity and that if the taxes that are already collected are utilized in large part for constructive effort, the pockets of the very tax-payer will show unmistakable signs of his increased capacity to pay. I firmly believe that the scope for improvement in taxation is very great in India; but the tax-payer has first to be convinced that the taxes he pays are used for his benefit. An overhauling of the system of expenditure is an

imperative necessity in this country. Even without taking into account the costly federal structure and second chambers envisaged in the Joint Select Committee Report the administration is extremely top-heavy. The high salaries of British officials were at first justified on grounds of distance, climate, lack of social amenities, etc., it being then contended that expenditure could be reduced by Indianisation and Provincialisation. But even though these were effected salaries continued to mount up till at last there is now a vast gulf between the incomes and standards of life of the people and of the members of the public services. The country's financial stability demands a radical re-adjustment of salaries. If the framework of government continues to swallow up large amounts social services are bound to suffer. In 1929-30 the Central Government spent 711 millions rupees on essential services as against 27 millions on social services. Out of a total federal expenditure of 801 millions the Percy Committee assigns 470 millions for military purposes and no great progress is possible either in economic or social matters unless there is a reduction of the military burden. The resources of the country can be husbanded not merely by a re-ordering of expenditure but they can also be increased by duties on properties above a certain value which devolve by death and on increment of land value due to betterment of the area by roads, canals or train or tram services. The Government can also exploit the easy money conditions in the money market by undertaking well-planned Public Works. Thus an ambitious capital programme must be inaugurated by both the Government of India and Provincial Governments.

#### **Economic Organisation.**

These extensive plans for development and amelioration have to be classified, initiated and carried out by a development commission in each province. They can also have the help of a smaller body of experts—an economic council—which will help them to foresee and tackle with the complex economic problems of the modern world, which will engage itself in continuous study of

current economic problems, of the development of trade and industry in each province, which will complete and co-ordinate the statistical and other information required by the Executive and the Legislature, which will invite the attention of both these to important economic changes and tendencies and which will suggest to the Government plans for solving fundamental economic difficulties as those connected with the stabilization of trade and the development of national resources. It is desirable that such a council has only the minimum of paid servants and that it should contain within itself leaders of industry and labour, experts in economics, popular leaders and the heads of departments of Government such as the Director of Agriculture and the Director of Industries.

The survey and speeding up of production, the improvement of agriculture, the extension of irrigation, the spread of education and the general amelioration of the conditions of the mass of the people in town and country, the eradication of idleness, ignorance and indigence are noble ideals which no nation need be ashamed of setting up before itself. But true statesmanship and patriotism lie not so much in envisaging the future as in taking effective steps to make the dreams of today the realities of tomorrow.

## ADVISORY ECONOMIC ORGANISATION FOR INDIA

BY

B. N. KAUL, M.A., PH.D. (LOND.), F.S.S.,

*Chairman of the Department of Economics, Aligarh Muslim  
University.*

One of the subjects which the Conference proposes to discuss this year is "Economic Planning for India." A comprehensive study of this subject must cover at least three major problems. The first is the constitution of the ultimate controlling authority in a planned system. Whether government should be a parliamentary democracy of the nineteenth century type or a dictatorship of a small group, or whether it is possible to devise a new form of government based either on a combination of principles underlying these two types or on some other principles. The second problem, which must be considered before a study of planned economy can make much progress, is—what should be the aim of planning? Whether it should be economic efficiency or justice. If the former, how should economic efficiency be conceived; if the latter, whose conception of justice. And must the two remain, in a large measure, mutually exclusive. And lastly, there is the question of reorganisation of economic life in accordance with the aim decided upon and the creation of a new administrative arm of the government, through which a plan of reorganisation as well as of normal economic activity could be worked out and given effect to. Such a study is a vast undertaking. I propose to content myself with a modest task, and confine this paper merely to what, in the above scheme, would constitute only a part of the last of the three sections—a consideration of the necessity, the functions and the constitution of an economic advisory organisation for India.

The discussion in this paper is based on the assumption that the essential framework of society, as well as of government, is not radically altered. It is attempted to fit into the existing system an advisory organisation which should enable the government to discharge its economic functions efficiently, without disturbing the balance of power. Changes of the type suggested in the White-Paper scheme, or in any other scheme which can be considered a practical proposition, will not seriously affect the conclusions of this paper. The proposals are not made in such detail as to necessitate important changes so long as alterations in the constitution are confined to measures which do not involve fundamental reorganisation of society, but in places modifications may be necessary to suit the particular scheme adopted. It may also be mentioned that there is a tendency to identify advisory economic organisation with economic councils. The view taken in this paper is that economic councils form only a part of the advisory machinery which can be employed by a government.

#### **1. Necessity of an Advisory Economic Organisation.**

The necessity of an advisory organisation arises on account of extension in the functions of government relating to the regulation and control of economic life. The nineteenth century view was that there should be minimum of interference by the state. The state fulfilled its functions if it provided security to life and property. But even before the War, governments had to give up this ideal laissez-faire attitude and there were reorganised fields of economic life in which state regulation was a common practice. It was also noticeable that the sphere of state regulation was becoming larger and larger. During the War, the economic life of the belligerent countries was largely government controlled and laissez-faire was entirely suspended. After the War, in spite of attempts to get back to the old automatic system, it has never been possible to introduce the same amount of individual freedom and private initiative in trade and industry. Finally, the depression in the last few years has dealt a death-blow to laissez-faire

and to the automatic adjusting economic mechanism. There is hardly a country now in which state regulation has not become an important feature of its economic life.

It may be argued that the present excessive control is a temporary phase due to the depression, and with the return of normal times this situation will be altered. It is possible that, in normal times, some of the impediments to a free working of automatic adjustments can be removed or reduced, and here and there a field for free action cleared. But when it is taken into account that a number of new factors, which did not exist before, now affect the economic organisation and tend to restrict and disturb normal free adjustment, it will be realised that the automatic system can never be relied upon to function as easily and frictionlessly as in the past. For several decades, and in particular since the War, the system of free competition has been steadily modified by combinations of persons in large groups for effective action in promoting their common interest. Out of this tendency have grown business and industrial combines, trade unions, co-operative organisations, consumers' leagues, trade associations, etc., with the declared object of promoting sectional interests. Some of these groups have become enormously powerful. As a result, we find that, for instance, the steel industry in America is so nearly a monopoly that it can more or less establish the price at which it sells its products.<sup>1</sup> For the same reason, one finds that petrol sells in India at more than double the price it sells in England, and in Germany it was necessary in 1931 to reduce the prices of cartelised goods by an Emergency Decree of the President as they had not fallen at all with the general fall of prices.<sup>2</sup> All organisations and forces which tend to make wages rigid offer impediments to the adjustment of costs to prices. Economic nationalism expressing itself in tariffs and other hinderances to free movement of

<sup>1</sup> This statement refers to the conditions which existed before the Rooseveltian recovery programme was put into operation.

<sup>2</sup> *World Economic Survey*, 1932-33, p. 48.

goods has the same result. In the field of monetary policy and finance, control is bound to exist if international movement of goods is restricted. These hinderances to the working of the automatic system appear to be of a permanent nature. They make the system rigid and less adaptable to circumstances through the mechanism of competitive prices. Therefore, even after the depression is over, there will be a permanent obligation on governments of different countries for the control and regulation of their economic life.

Nineteenth century governments had no organisation for dealing with these problems as their functions did not cover these activities. Occasionally, if necessity arose, specialists were consulted or advice was taken by means of committees and commissions. Sometimes specialists were permanently employed. But as occasions of this kind were few, and as problems were not complicated, governments largely relied on the advice of their permanent civil servants in these matters as in others. However, with the addition of this new field of activity to the permanent functions of government and the growing complexity of economic problems, this system of seeking advice has broken down. It has given rise to a collection of improvised measures adopted with sectional ends in view, lacking co-ordination and continuity of purpose and often in conflict with each other. Incredibly absurd instances of government interference can be quoted from the history of the last few years. The machine of government, as we know it in countries with free democratic institutions, is incompetent for the responsibility which it has to undertake. There is no provision for expert advice for the planning of a co-ordinated economic programme or for investigating all the implications of any particular economic measure. The ministers and high officials who have this work in hand are over-worked with administrative details and have no time to think out schemes at leisure. Under these circumstances "a modern Minister is *ex-officio* an improvisor and an opportunist; and he is *ex-officio* a weary man—perhaps a weary Titan, but certainly weary. And this is true not only of

Ministers but of the relatively small number of officials who are consulted on major policy."<sup>3</sup> This leads to departmentalism, inertia and conservatism clinging to tradition and creates an opportunist attitude to problems which cannot be ignored. The result is general neglect and inefficiency, and in those problems in which governments are forced to take some action, a state of chaotic interference without any plan or co-ordination. These difficulties of the present government machinery are being constantly felt and the movement for the establishment of economic councils during the last ten years is largely due to this cause.

The Indian Government is not a parliamentary democracy but, broadly speaking, its functions and its administrative machinery have been designed on European models of the last century, with suitable adaptations. It has not attempted to undertake extensive control of economic life and therefore has not set up an administrative machine for the purpose. But changing circumstances have forced on the Indian Government, as on European governments, an important economic rôle. Discriminating protection, the Ottawa and the Indo-Japanese trade agreements, provincial debt legislation, fixing of a minimum price for sugar-cane, are examples of state control of economic life, and indicate a radical departure in policy. Lacking proper machinery for initiation and consideration of measures of this kind, its activities in this field have suffered from the same defects as those of European governments. The measures adopted in India also bear the stamp of improvisation and absence of co-ordinated thinking. For instance, in debt legislation, relief of difficulties arising out of the fall of prices in the recent depression has been mixed up with the permanent problem of agricultural indebtedness. To take another case, we had first a tariff on sugar which was considered sufficient for the protection of the Indian industry, afterwards it was raised by 25 per cent, and later an excise duty

<sup>3</sup> Salter, Sir Arthur, *The Framework of an Ordered Society*, p. 18.

was levied to counterbalance the surcharge. Lastly, a minimum price has been fixed for sugar-cane. And the result is that a number of mills, set up under the protection of the original tariff and the 25 per cent surcharge, now find it impossible to carry on. It is not necessary to multiply examples. The Government has itself felt the want of an advisory organisation in the last few years. And it must be said to its credit and, in particular, to the credit of Sir George Schuster, that tentative attempts have been made to explore the possibility of setting up such an organisation<sup>4</sup> though no definite steps have so far been taken. A few minor improvements have been made. The Director-General of Commercial Intelligence and Statistics is now attached to the headquarters of the Government of India and a Research Branch of the Department has been created by internal shuffling. These changes are, however, of such a nature that they do not lead to any important improvement in the existing situation.

The necessity for the creation of an advisory economic organisation is evident. The Government, whether willing or not, has been saddled by circumstances with the responsibility of extensive regulation and control of economic life. There is no alternative but to accept it. It has no administrative machinery for discharging this responsibility efficiently and expeditiously. It is therefore desirable that an organisation should be created with the help of which the Government can fulfil its new obligations in a satisfactory manner.

## 2. Functions of an Advisory Economic Organisation.

Before we discuss the manner in which an advisory economic organisation for India should be constituted, it is necessary to understand clearly the part such an organisation should play in helping a government in discharging its economic responsibility. On the functions assigned to it will depend its constitution and

<sup>4</sup> The enquiries carried out by Sir Arthur Salter and by Professor A. L. Powley and Mr. D. H. Robertson are examples of such attempts.

power. The first thing to keep in mind in this connection is that the functions of such an organisation are entirely advisory and economic. It has no political rôle to play. This might appear a platitude, but it is necessary to lay some emphasis on it because, as a matter of fact, in most countries the political and the economic issues have been combined. In particular, this mixing up of the two issues has been in evidence in the establishment of economic councils. In Germany the Provisional Economic Council of the Reich was largely a concession to extreme socialist thought. Even in countries in which the political aspect was not so predominant, governments have felt that there were possibilities of these bodies developing into parliaments of industry and becoming, in a measure, rivals of the usual sovereign bodies. Consequently distrust between the governments and the councils has been a marked feature. As a rule governments have refused to put any major economic issues before them and the most active councils have been engaged either in enquiries into facts or in helping formulate policy on unimportant matters. They have not been given an opportunity, generally speaking, of helping governments in formulating policies on major issues. Under these circumstances, an advisory economic organisation defeats its purpose. It is necessary that complete confidence should exist between the government and an organisation of this kind. If there are any genuine political grievances, the usual methods of enforcing changes in the constitution should be followed, instead of seeking redress through the backdoor of an advisory economic organisation. Such procedure, without effecting any substantial redistribution of political power, only helps in defeating its economic purpose.

In India it is all the more important that the functions allotted to the advisory organisation should be entirely economic. The slightest political tinge will make an organisation of this kind totally ineffective. Its function should be merely to put the government of the country, however constituted, in possession of full facts relating to economic matters and to offer expert advice on problems that may arise, so that the government may arrive at

decisions with knowledge of relevant data and a full realisation of the implications of their actions, instead of groping in the dark. It should not be its function in any way to limit the freedom of government in these matters or to affect the distribution of power.

With this limitation, the first duty of an advisory organisation is that it should collect all relevant facts and should arrange them and publish them in suitable form. This process should be carried on continuously. The statistics selected for collection should give a correct picture of the economic life of the country and should be arranged and published in such a way that they may be used without much labour. The second function of such an organisation is to provide suitable indices of the main currents of economic life and to interpret and co-ordinate changes in them so as to give a correct impression of the general trend of the economic activity of the country. Besides this, research should be conducted into obscure problems of economic causation, and the relative importance of different economic factors in this country, as compared with others, should be investigated. For instance, the problem of depression is not clearly understood at present. Many theories have been advanced, but none of them is entirely satisfactory. It should be part of the work of this organisation to investigate the problem of depression and, in particular, to find out the relative importance in India, as compared with other countries, of the different factors which are already known to influence this phenomenon. The third function of this organisation is to investigate specific problems that may be referred to it, or may arise from time to time. For example, the recent debt legislation was a very suitable subject into which the advisory organisation, if the Government had one, should have been asked to investigate in order to make suggestions as to the lines on which it should be drawn up.

The most important function of an advisory economic organisation is to co-ordinate government's economic activity into a unified whole and to assist in establishing continuity of policy.

At present fragmentary organisations, which exist either in India or in western countries, are most deficient in their ability to discharge this function. Without the ability to undertake this essentially important work, the utility of an organisation of this kind is considerably curtailed. The functions mentioned earlier all lead up to this ultimate end. The necessity of collection and arrangement of statistics, preparation of suitable indices, their interpretation, and research into obscure problems is merely incidental to the main work of giving authoritative advice in the formulation of economic policy, so that the defects of sectional, inconsistent and imperfectly thought-out legislation, from which government regulation has suffered, may be removed. If this final purpose, towards which all other aspects of an advisory organisation should converge, is lost sight of, as it often is, then such an organisation becomes largely useless. It is therefore necessary that, in setting up an advisory organisation in India, the fundamental importance of this function is realised and all its branches are so designed and related to each other as to enable this purpose to be fulfilled.

### 3. A Department of Economics and Statistics.

The present methods by which the Indian Government seeks advice on economic matters consist in setting up special bodies like the Tariff Board and the Indian Cotton Committee, consultations with certain organised interests like chambers of commerce and publication of bills for opinion. Certain provincial departments have advisory boards attached to them and some provinces have set up boards of economic enquiry. The device of setting up commissions and committees is employed in certain important cases. There is a central Department of Statistics, which has been combined for some years with the Department of Commercial Intelligence. This Department undertakes the tabulation and publication of a large part of Indian statistics which are collected by other departments incidentally in the course of their normal work. This description of the existing advisory machinery may

appear fairly impressive on paper, but in reality it is very defective. Apart from the Tariff Board and the Indian Cotton Committee and some recent commissions and committees, other advisory bodies have not generally functioned efficiently. Departmental advisory boards and boards of economic enquiry have not much to their credit. As regards the quality of primary statistics on which all economic advice must be based, one cannot do better than quote from the report of Professor A. L. Bowley and Mr. D. H. Robertson. They write: "The statistics of India have largely originated as a bye-product of administrative activity . . . As a result, the statistics are uncoordinated and issued in various forms by separate Departments . . . they are unnecessarily diffused, gravely inexact, complete or misleading; while in many fields general information is almost completely absent . . . The situation cries out for overhaul under the control of a well qualified statistician."<sup>5</sup> But even if the existing machinery was functioning satisfactorily, there would still be serious gaps in India's advisory economic organisation. There would be no provision for research into obscure economic problems, for investigation into specific problems as they arise, and no attempt to keep, through indices of economic activity, a general picture of the economic life of the country before the Government. Above all, there would be no arrangement for helping the Government in co-ordination of economic policy and establishment of continuity of purpose.<sup>6</sup> In order therefore that the advisory machinery fulfils these functions, the need for which arises directly out of extension in government activity, it is necessary that an entirely new organisation be created and the existing fragments absorbed into it.

<sup>5</sup> *A Scheme for an Economic Census of India*, p. 1.

<sup>6</sup> The Research Branch of the Department of Commercial Intelligence and Statistics, which has been recently created, has not worked long enough to enable one to form a definite judgment as to its possibilities, but from the manner in which it has been constituted it appears that it will not improve the situation materially.

In many western countries, a considerable part of the work assigned in this paper to an advisory economic organisation is done by unofficial bodies. Information relating to production, trade and prices of certain articles is collected by associations of producers of those articles. Research into economic questions and preparation of indices for the presentation of a continuous picture of their economic life is carried out by universities or by other institutions. In the United States the Harvard Economic Service and the National Bureau of Economic Research, in Germany and Austria the Konjunktur institutes and in England the London and Cambridge Economic Service are examples of unofficial agencies which undertake this work. In India no unofficial bodies of this kind exist and therefore the entire work will have to be done by an official organisation. In some ways this is a drawback, particularly in the matter of interpretation of changes in economic indices, for the official view is likely to become stereotyped without independent criticism. This situation cannot be altered unless institutions interested in these questions arise. To some extent, however, it can be remedied by dividing the advisory organisation into two parts—the Government departmental organisation of permanent consultative staff and advisory councils. This is the arrangement suggested here.

The permanent official section of the advisory organisation should consist of a newly created Department of Economics and Statistics under the Government of India, which should absorb the present Department of Statistics. This newly created Department should be organised under three sections—one section dealing with the collection, tabulation and publication of primary statistics, another with the preparation of suitable indices of economic life, interpretation of changes in them and research into obscure problems, whose solution is necessary for understanding the working of the economic mechanism of the country, and the third section dealing with specific enquiries that might come up from time to time. The difficulty which every economic intelligence department has to face is that it cannot be told beforehand the

specific problems on which its advice will be sought. Under these circumstances, an organisation of this kind has to collect as much information as it possibly can, to arrange it into suitable categories, to summarise it into indices of main currents of economic life, and to throw light on problems of economic causation from a general point of view. Particular questions cannot be answered without further investigation. The former function should be assigned to the first two sections and to the third section should be assigned the investigation of special problems. Under each section there may be sub-sections according to requirements. For instance, the section dealing with special problems may have, under present circumstances, a sub-section dealing with problems of tariffs and trade treaties, another with measures for reduction of the burden of agricultural debt, a third with problems arising out of fall in prices and so on.

The whole Department should be under the charge of a highly qualified statistician and economist, who should be responsible to the Government for organisation of economic intelligence on sound lines. But his special sphere of work should be co-ordination of economic information for the purpose of establishing continuity of economic policy and preventing inconsistent and imperfectly thought-out legislation. All proposals affecting economic life should be referred to this Department and the Government should not formulate its final proposals without taking its recommendations and suggestions into consideration. It should be the duty of this officer to submit a comprehensive report on all proposals referred to him in this manner, dealing with their effects on all aspects of economic life and pointing out whether, in any of their implications, they go contrary to the general policy previously followed. It should also be the duty of this officer to keep constant watch over the economic life of the country and send up to the Government suggestions for measures which may become necessary in pursuance of a declared policy but which have been overlooked by the Department concerned.

The extreme importance of work of this kind makes it neces-

sary that the head of this Department should be a man of the status of a Secretary to the Government. The Department should be run not as a secretarial department but as a scientific department. Complete freedom should be given to the expert staff to express their opinions without any restriction, provided the Government shall have the right to publish them or not.

As regards the relation of this Department to the Cabinet, two alternatives are open under the existing conditions. It can be either attached to one of the existing portfolios or can be put under an Economic Committee of the Cabinet, as suggested by Professor A. L. Bowley and Mr. D. H. Robertson.<sup>7</sup> It appears that a better alternative will be to put it under a new member of the Cabinet, who should not be burdened with any administrative department. Having more time, he will be able to study these problems seriously and will presumably take up a more reasonable and receptive attitude towards the suggestions and proposals put forward by this Department, and will also command greater attention for them in the deliberations of the Cabinet.

In the provinces, corresponding organisations, with provincial jurisdiction and under members of provincial cabinets, with permanent heads of the department of the position of Secretaries to the Government, should be created. For the collection of primary statistics the administrative departments should render all possible help, as they do at present. But since this Department will undertake the collection of such data as are not at present collected (for instance, a census of production, statistics of income and wages, etc.) and since it should be put also in charge of the population census, it will have to employ a large number of investigators for the collection of primary statistics which may not be available through the agency of the administrative departments.

<sup>7</sup> *A Scheme for an Economic Census of India*, p. 2.

#### 4. Economic Councils.

The permanent consultative staff should form the more important section of the advisory organisation, but the suggestions and opinions of non-officials representing different economic interests and experts in their own branches are also of great value and should not be ignored. To secure this object, economic councils should be established to work with the Central as well as the Provincial Departments of Economics and Statistics. During the last ten years many types of economic councils have emerged but from the point of view of their constitution they fall into two classes—those constituted on the representative principle and those nominated by governments. The German and the French councils are based on the former principle.<sup>8</sup> They are both large bodies consisting of representatives returned by organisations of different economic interests. On the other hand, the British Economic Advisory Council is a nominated body. It consists of twenty-five members, five of the Ministers are *ex officio* members and twenty others were nominated by the Prime Minister.<sup>9</sup> In India bodies nominated on the advice of the heads of the Central and Provincial Departments of Economics and Statistics will be found more workable than councils established on the principle of representation.

Practically all representative councils have been established under political pressure as a concession to radical thought and as some approach to the creation of a parliament of industry. It has been mentioned that it will be particularly unwise to mix up political issues with questions of economic administration, which have to be faced by any government however constituted. From this point of view, a small body consisting of non-official experts will be much more useful and workable than a large representative body. Sir Arthur Salter recommended representative councils for

<sup>8</sup> The German council does not function now. Even some time before Hitler's accession to power its importance had considerably declined.

<sup>9</sup> Lindner, E., *Review of the Economic Councils in the Different Countries of the World*, p. 29.

India,<sup>10</sup> but he ignored what he has himself pointed out, and what others have pointed out, that it is impossible to create representative economic councils in a country in which important economic interests are not properly organised.<sup>11</sup> Where organisations of important economic interests exist, it is easy to secure representatives for the council. But if in India the representative principle is applied, in many cases elections, corresponding to elections to the legislative bodies, will have to be held. On grounds of practicability alone, the representative basis seems to be unworkable in India. It is therefore suggested that the Central Council should consist of about twenty and the Provincial Councils of about fifteen nominated members.<sup>12</sup> In making these nominations due weight should be given to all the important economic interests in the country.

The Cabinet member in charge of the newly created Department of Economics and Statistics should be the Chairman of the Council and the head of this Department should act as its Secretary. All measures, that are referred to this Department for opinion, excepting those few which cannot be disclosed to any non-official, should be placed before the Council. The Department in making its own suggestions should take the opinion of the Council into consideration, but should submit to the Government the opinion of the Council independently of its own. The Councils should also have the power of initiating economic measures which to them might appear necessary and placing them before the Government through the Department of Economics and Statistics for being included in its economic programme, if approved. The proceedings of the Councils should be confidential but the Government should

<sup>10</sup> *A Scheme for an Economic Advisory Organisation for India*, Section V.

<sup>11</sup> Salter, Sir Arthur, *Framework of an Ordered Society* and, for instance, Tugwell, *Industrial Discipline*.

<sup>12</sup> If these numbers appear too small, it may be of interest to mention that in the U.S.A. a bill for the establishment of a National Economic Council was placed before the Senate, in 1931, in which a council of fifteen was proposed.

make an attempt to publish as much of the proceedings as it can without detriment to public interest.

An advisory economic organisation designed on these lines will have the advantage of creating a permanent staff of experts who will be responsible for economic intelligence without which it is impossible to put forward any definite proposals; and will also bring together the official and the non-official experts in formulating a co-ordinated and continuous policy of economic administration on the basis of facts so obtained.

# THE RATIONALE OF ECONOMIC PLANNING FOR INDIA

BY

HARICHARAN GHOSH,

*Bangabasi College and Calcutta University.*

[In this paper, I have discussed certain preliminary difficulties that seem to obstruct the successful working of any planned scheme for the economic recovery of India.]

Looking back to the facts of the last few years we find that there had been widely diffused efforts of individuals and of groups to adjust their particular activities to the new economic conditions of the present times. There is much evidence as well that these processes of individual adjustment which were, in large measure, independent of government action, were leading in many countries to healthier economic organisation. But they did not result in very definite large scale solutions, nor there was any great advance towards any of the grand remedies which had been widely advocated as necessary for controlling the new economic conditions. "Prices were not raised, international trade remained subject to heavy restrictions, exchange instability persisted, international debts remained in large part suspended and international investment was not resumed on any great scale."<sup>1</sup>

This led economists and statesmen to doubt seriously the continued efficacy of these individual efforts. And governments and publicists felt that nothing short of an international co-operation could find out and give effect to the remedial measures that are necessary for the occasion. Attempts were made for some international agreement, but by the summer of 1933, it became abundantly clear that there was little immediate prospect of effective international action to remedy the depression. The

<sup>1</sup> Cf. *World Economic Survey, 1933-34*, p. 8.

adjournment at the end of July of the much expected World Monetary and Economic Conference which assembled in London in June 1933 struck a fatal blow to all expectations of recovery through international agreement. The whole situation became worse when it was found that the recovery programme of the United States of America had taken a decidedly nationalist turn with the launching of the National Industrial Recovery Administration. With such meagre results from international agreement it was inevitable and it is now a world-wide fact that economic nationalism should be and has been intensified. And we find that attempts are being made by governmental policies for stimulating economic recovery by national as distinct from international measures.

Now let us see what is exactly signified by the magic word "Planning." In a sense the direction of any organisation involves planning, and in this sense planning has always existed. The Government budgets are instances in this point. What is comparatively new is an attempt to secure continuous co-ordination, for some consciously accepted and previously determined end, between various associations which were formerly run regardless of one another's policies and interests. Planning is not a policy or an end in itself, but an instrument for smoothly and surely carrying out the policy. The motive forces behind the growing demand for large scale planning are "an impatience with waste of actual or potential goods and services, and a suspicion that the wobble in the wheels of industry called the trade cycle is developing into something so violent that if it cannot be cured by overhaul, the whole machine will be unmangeable."<sup>2</sup>

But if all kinds of waste are to be eliminated from any community, there must be a spirit of large scale co-operation among all its members who must be imbued with the idea—as the Russians had been—that they are out to wage war against all institutions that are directly or indirectly responsible for any waste,

<sup>2</sup> Cf. Planning No. 85, p. 5.

irrespective of the fact that these institutions bring in large profits to certain individuals or specific sections. This again is possible only when the people have attained a substantial level of education, of critical judgment and of mature character, as well as of technical competence. Such a set of men is always needed because all schemes of planning tend to put social values before economic values. Planning as an instrument requires large scale coordination and as such it involves the continuous and smooth working together of a large number of balanced, critical, and constructive men in all the key positions. It requires a wide outlook for common good and a spirit of idealism and sacrifice which is vitally opposed to "vested interests."

Next if the fluctuations in industry and trade are to be brought under control, all possible cases of divergences between marginal social net product and marginal trade net product must be checked. This requires a strong hand and a centralised despotism. What is the lesson of the countries which have already launched on a scheme of planning? " Apart from the more formal and logically complete systems of national reorganisation in such countries as Italy and the U.S.S.R., there is obviously a strong tendency towards the extension of state activities in many other countries. The experimental programme that has so rapidly developed in the United States contains, in addition to emergency action directed towards recovery from the depression, a considerable degree of planned economy in which controlled agriculture, industries working under codes, and regulated foreign trade must eventually be combined. The British proposals, not only for agricultural, but also for industrial reorganisation, the plans mooted in Japan for export control and schemes of Government reconstruction in many countries from China to Peru, are all indicative of a general trend "<sup>3</sup>—control of economic organisations under centralised despotism and political dictatorship.

<sup>3</sup> Cf. *The World Economic Survey, 1933-34*, p. 77.

It is extremely necessary that there should be a great deal of reorganisation and regrouping of productive activity in the course of every depression and the present one is no exception to the general rule. As a matter of fact, especially in 1932 and 1933, there was on every hand, in almost every country, an extensive overhauling of private enterprise, involving much liquidation and reconstruction, adaptation of processes, and improvement of management.

Now we are in a position to discuss how far in the present circumstances of India, it would be possible to introduce a practicable planned scheme for her economic recovery. The first question is the formulation of the scheme. Who would be the authors of the plan? Should it be entrusted to an efficient and trusted official of the Government or should there be a Commission of officials and non-officials especially appointed for the purpose? Another aspect of the same question is, whether there should be one scheme for the whole of India, or different ones suiting different circumstances of the provinces. An official of a Provincial Government—the Deputy Director of Industries, Government of Bengal—urges in his recently published work that “there cannot be any one economic plan for the whole of India,”<sup>4</sup> although he admits “the inevitable limitations of a provincial plan.”<sup>5</sup> This view is absolutely untenable for obvious reasons. Possibly Mr. Mitter did not analyse the methods pursued in different countries for their economic rehabilitation. The history of recovery programmes of these countries points out that a substantial portion of the recovery that has taken place is traceable to relative advantages derived from currency depreciation and consequent cheap money. Next comes the change in policy from free trade to protection which has stimulated certain industries. The almost complete cessation of capital exports supplemented by the embargo on foreign loans,

<sup>4</sup> S. C. Mitter: *A Recovery Plan for Bengal*, The Book Company, Ltd., College Sq., Calcutta, p. 12.

<sup>5</sup> *Ibid.*, p. 12.

also contributed largely to the accumulations of domestic funds and the lowering of interest rates. These are not possible if the plan is to be worked out by the provincial governments, and it is really very difficult to follow the argument of Mr. Mitter that "there is ample scope for the provinces to develop their recovery plans and carry them through," although he admits that "some of the auxiliaries to our economic activities, such as matter relating to currency, customs, railway freight, tariff, etc., being all-India subjects are outside the control of provincial governments."<sup>6</sup> On the other hand, the perusal of the reconstruction schemes of different countries reveals that the major elements of such plan are budgetary economies, wage reduction, conversion of the domestic debt, legislation to effect other interest reductions and depreciation of the exchange rate. Any scheme which is to be prepared and acted upon by any one provincial government is unfortunately unable to control or regulate any of these elements. The fact is that there are two stages of any planned scheme: (a) the planning of the fundamentals which would determine the main frame, and (b) that of the details. Mr. Mitter seems to have confused between these two stages. He has not discussed what requisites are necessary for a successful working of a planned scheme, and whether they are at present existing in India. He at once jumps into the second stage and attempts to chalk out a detailed scheme for the economic recovery of Bengal.

Following the experience of other countries, it is evident that a practicable "planned scheme" must relate to the whole of India, provided other circumstances favor it. On this point Professor Robbins seems to hold a correct view. He contends that "self-government in industry is not planning but syndicalism. It merely extends to whole industries the right to make plans for themselves similar to the right already enjoyed by individual entrepreneurs. But by eliminating competition, or potential competition, it creates a state of affairs much less likely to be stable

<sup>6</sup> Cf. *A Recovery Plan for Bengal*, p. 11.

—much more likely to be restrictive—than the so-called chaos of individual enterprise . . . A planned economy must be planned from the centre. This is the only intelligent meaning which can attach to the concept.”<sup>7</sup> He draws a contrast between planning and *laissez-faire* and seeks to show that there can be no workable type of planning which does not involve a centralised despotism.

Assuming that there is a rehabilitation scheme worked out from the centre, the next question arises: Is the Government of India in a position to undertake the huge financial obligations involved in giving effect to a system of planned economy? Here also a reference to the west would reveal the full economic significance of a plan like this. In U.S.S.R. the financial burden is said to represent no less than the setting aside of half of the national income for five years. Others are not exempt from this sort of sacrifice. In fact, all the plans for national recovery that have been pursued have been combinations of cost reductions in certain directions with expansion of expenditure in others. This is why “some measure of currency depreciation leading to the probability of ultimate devaluation was an integral part of the recovery programmes in almost all the countries which relied primarily upon lower interest rates and credit expansion.”<sup>8</sup>

Let us suppose that the Government of India would be able to raise a loan—for which I myself have great doubts—sufficient for the purpose. But that does not solve the problem. Further difficulty would lie in the determination of the personnel of the authorities entrusted with the administration of the new system. Experience shows that in India, qualification alone is not the determining factor; several other considerations must be weighed before any personnel can be announced by the Government. But successful carrying out of a plan like this requires a very limited number of men with very great abilities and large powers. Communal considerations, different commercial interests and other

<sup>7</sup> Quoted in Planning No. 35, p. 10.

<sup>8</sup> Cf. *The World Economic Survey, 1933-34*, p. 25.

vested rights must not be taken into account in its determination. Only sixteen men in Moscow began the most audacious experiments in human history which would shape the industrial future of 146,000,000, people and of one-sixth of the land area of the world. The National Recovery Measures which are directed towards the economic rehabilitation of forty-eight States of an advanced people like the Americans were initiated by the strong hands of President Roosevelt. The cases of fascist Italy and modern Germany and Austria are also similar.

Even if this difficulty can be solved, is the Government of India in a position to take a strong stand against the dictates of Whitehall and will it be able to maintain its own course of action freely and boldly? This is a question which the authorities at Delhi and London are best competent to answer. The past history, however, is not very encouraging. The analysis of the Recovery Plans in the West reveals one very important factor, *viz.*, the conduct of monetary policy according to the needs of the country. This is one of the most important pillars of the new economic structure and if the Government of India is not certain as to the future course of its action, it can hardly take up so momentous a step. Mr. Mitter has referred to fiscal convention of the Government of India and hopes that "the inauguration of the new constitution with its federal structure will invest the provinces with ample powers and resources to develop on their own lines and according to their own needs."<sup>9</sup> Recent history has clearly shown the scope of the so-called fiscal convention and the J. P. C. Report has possibly, by this time, belied all fond hopes of Mr. Mitter in regard to future powers and resources of the "autonomous" provinces. The framers of any schemed plan for India should always bear in mind that our government is a subordinate government of the United Kingdom and the legislature enjoys only restricted powers. The problem of a plan for recovery should be discussed in all its bearings in this light. It is yet to be seen how

<sup>9</sup> Cf. *The Survey*, p. 11.

far a dependent government can put into action any scheme, the main basis of which is exchange and currency manipulation and creation of cheap credit.

The other major elements of a plan like this, as has already been mentioned, are budgetary economies, wage reduction, conversion of the domestic debt and legislation to effect other interest reductions. The general financial position<sup>10</sup> of the last decade is not at all encouraging. The history of Indian finance during this period shows that the government did not try all possible means to remove annual revenue deficits, what to speak of effecting economies in the budget. Besides, any question of effecting economies in the Indian budget is meaningless without a reference to her Army budget. But that is a sacred portal through which the Indian legislators can hardly pass. Even in matters of civil expenditure, where their voice is feebly heard, there is a continuous increase in the expenditure,<sup>11</sup> although the main items necessitating any increased expenditure have been, under the Reforms, transferred

10

General Revenue Position (in crores of rupees)

1921-22	- 27.65	1927-28	- 2.22
1922-23	- 15.02	1928-29	- 0.82
1923-24	+ 2.39	1929-30	+ 0.27
1924-25	+ 5.68	1930-31	- 11.58
1925-26	+ 3.31	1931-32	- 11.74
1926-27	+ 2.96		

\* Net Surplus +  
or deficits -

11

Civil Expenditure (in crores of rupees)

1921-22	8.64	1927-28	10.22
1922-23	9.37	1928-29	10.43
1923-24	8.65	1929-30	12.66
1924-25	9.89	1930-31	13.84
1925-26	9.87	1931-32	12.18
1926-27	10.28		

to the provinces. The case is almost similar in the case of debt charges.<sup>12</sup> These figures are extremely discouraging and one feels pessimistic as to the future success of any plan, even if other circumstances prove favourable. Next in regard to legislation to effect certain changes necessary for the purpose, the present mentality of the government needs to be changed. Everybody feels that restriction of jute cultivation is a proper remedy, for the slump in the trade and the Bengal Government acknowledge that, but it does not seem to be strong enough to take a bold step and legislate compulsory restriction in this matter. What seems to have been the right thing was to formulate a code immediately after the publication of the Jute Enquiry Committee Report and push its administration strongly and freely. That would have been planning.

Planning, once begun, is a process that must always be pushed further. Weak and vacillating temperament cannot carry out a programme of this type. A wide outlook, a spirit of idealism, balanced judgment and independence of mind together with a strong faith and iron determination are the preliminary requisites of economic planning. The authors of the Five-Year Plan are aware of the social and economic implications of their scheme. They feel that the tension and sacrifice involved in carrying it through are similar to those called for in the financing and conduct of a big war. Accumulation and redistribution of wealth on such a scale is quite unprecedented. The world outside may doubt its

12

Net Debt Charges (in crores of rupees)			
1921-22	14.89	1927-28	11.99
1922-23	15.00	1928-29	12.82
1923-24	14.17	1929-30	16.56
1924-25	15.27	1930-31	17.42
1925-26	14.12	1931-32	19.72
1926-27	12.66		

feasibility but the authors of the Plan seem to have no doubts on this point. Such should be also our faith, similarly courageous should be our experiment and equally bold and free should be our operation. Nothing less than that would solve our problem.

## FALLACIES OF ECONOMIC PLANNING

BY

**KHAGENDRA N. SEN, M.A.,**

*Lecturer, Calcutta University and Commercial Editor, "Advance."*

[In this paper, the author discusses the question of Economic Planning as a phase of economic nationalism arising from post-War economic conditions and warns against a complacent assumption that it means the end of the era of the pre-War competitive system. He traces the course of recent economic developments and concludes that though the future is yet indefinite, there are certain tendencies which point in the direction of a return to the competitive system on a more rational basis.]

With the recognition by the Government of India of the necessity of planning their activities, the case for economic planning in India is complete. The scale on which the Government of India is proceeding is necessarily limited in scope and character and is on an experimental basis for the present. The experiment, however, inspires a query as to the whole significance and purpose of planning. Apparently it implies a breakaway from the orthodox doctrine of *laissez faire*, not only in the sphere of individual economic relationships but also in that of international trade and commerce. Within the period of over sixteen years that have elapsed since the signing of the armistice, we have had several examples of economic planning in the different countries of the world. Some of these represent so great a divergence from the old-world canons of free and unfettered competition that it is worth while to inquire into the motif of economic planning in general and its probable future.

At first sight it would seem that the answer is simple. The purpose of all planning is to secure a co-ordination of efforts and activities with a view to the elimination of waste. Nothing could be more natural than the fact that in the conditions of anarchy,

chaos and confusion which prevailed in post-War Europe, statesmen and administrators should find the last haven of refuge in the assumption by the state of the control of the entire economic life of the nation, or of such parts of its as would easily lend themselves to such control and yield the expected results. But the planning becomes a meaningless effort if it is not related to some definite and pre-determined end. In industries, the elimination of all waste has, for example, the object of securing the maximum of efficiency and of bringing down costs to a competitive level. The ultimate objective behind all forms of economic planning seems, for the present, to be a blind and uncritical bias in favour of what, for want of a better phrase, may be described as economic nationalism. In this new economic craze, the interdependence of the world economic order is ignored, and the pendulum of economic policy swings forward to the point at which it is believed that there is a special merit in thinking of the national group as the final and ultimate unit of the natural allegiance of both producers and consumers. To provide for economic self-sufficiency at any cost seems to be the most popular of party cries at the present moment.

In this estimate of economic nationalism two facts are frequently lost sight of. The first is that the formulation of national economic policies has been in each case a contingent sequel of the post-War crisis and not due to the fact that they have been adopted after a nice balancing of the issues in a calm and rational way. Secondly, these programmes of national economic development are being pursued in the midst of conditions that are wholly artificial. As a permanent characteristic of post-War economics the policy of "each nation for itself" has yet to be justified. To put it in a different way, we have yet to see how far the competitive system of the old which stood the test of a century of economic development so well has in reality broken down.

The two great causes which have impelled the world to adopt the policy of national exclusiveness in economic affairs are unemployment and a dwindling quantum of trade, which are to a

certain extent inter-related. The why and wherefore of both we might for the present ignore. The remedy for the first is usually found in the limitation of imports and encouragement of local industries, and that for the second in a stimulation of exports and other measures to capture a part at least of the world's export trade. Ancillary measures relate to the regulation of the capital market, the control of exchange and the manipulation of currency. A policy of cutting down imports and at the same time of stimulating exports becomes patently absurd if every country tries to follow it. To the nation itself, a decrease in the quantity of imports is not likely to be of any benefit unless it is accompanied by an equivalent increase in domestic production. It is significant that while legislative enactments or executive decrees may lead to a heavy curtailment of imports, it cannot achieve, by itself, the other end, namely, the expansion of domestic production, because the spirit of enterprise is something which cannot directly be induced by the government. Further, in all attempts to limit the imports, undue stress is often laid on the "visible" balance of trade. This would be a totally unsatisfactory standard by which to regulate public policy in many countries—for instance, in countries having large shipping connections or foreign investments. Statistical tables do not consequently give us the whole truth about the effects of economic nationalism in the sphere of trade and commerce though they do give us a measure of its effect when regarded from specific aspects.

There are other and more formidable difficulties in the statistical presentation of the situation. The inflation of currency, the movement of War materials side by side with normal trade, blockades and controls, backstage treaties, agreements and unions, financial and industrial cartels cutting across national frontiers—all these combine to complicate the issue. Nor are these operative only during the War; they leave an aftermath no less formidable. In fact, it was the aftermath of the War that brought into prominence the play of the forces of economic nationalism in its most characteristic aspects. Besides the manipulation of currency,

tariff barriers designed to restrict, and in not a few cases totally to prohibit, the normal flow of trade were in almost all countries heightened and extended in the period immediately following the War. To tariff walls were added requisitions, controls, priority systems, prohibition of particular imports or exports, price fixations, government monopolies and the like. It was impossible to trace to any single cause any share of the total effect they all combined to produce. But between themselves, they told the story of economic nationalism. In order, however, to assess the moral of that story a brief reference to its course during the last decade and a half may be made.

The artificially stimulated production of the War years and the altered course of trade had, it is now well-known, its inevitable reactions in the crisis of 1920-21. It gave a strong stimulus to the remarkable growth of nationalist economic policies which characterise the period immediately following the War. Protective tariffs had been imposed by Great Britain, France and Italy in the years 1920-21; the newer European States had also imposed heavy tariffs to foster their industrial development. A general upward movement of tariffs was clearly visible, particularly marked in relation to manufactured articles and industrial products. Commercial treaties, customs legislation, bilateral agreements were the main features of the international economic situation during the first seven or eight years of the armistice. A special feature of the period was the rapid increase in the production of raw materials compared to the increase in population. The incipient maladjustment between the basic products and manufactures began to be revealed when the constructional boom passed away and the net effects of the remarkable structural changes of industry together with the technical and mechanical progress of the period began to be felt. There had simultaneously been great changes in the direction and nature of consumption leading to a phenomenal increase in the standard of living which could only be satisfied by economic organisation of an elaborate character. This enables us to realise the significance and importance of the system.

of public control and regulations not only over a large area of the industrial field but also over a large part of the financial mechanism of each of the countries concerned.

In the pre-War period, the mechanism of adjustment worked smoothly through various devices, such as the manipulation of the short-term interest rates, regulation of foreign investments, etc., all of which, of course, assumed for their success a certain elasticity of the economic structure. Some idea of the altered situation as it prevailed after the War might be obtained from the huge amount of provision that had to be made to meet the debt services (including the transfer problem) together with the considerable amount of inelasticity introduced into the national expenditure by commitments in respect of social services, and also from the shift of investment from industrial shares or equities to fixed interest bearing securities. On top of all these, came the various fiscal measures adopted to "protect" national industries from foreign "competition." It would take me far beyond the limits of the present paper if I were to analyse each of the features of the situation in detail. The net result, however, of all these forces was the creation of an all-round wall of obstruction to those automatic adjustments of trade and commerce that had marked the competitive system. The financial mechanism was out of gear; production of basic industries had outstripped the requirements of industrial consumption; international trade had dwindled; and the currency standard had collapsed under the weight of financial landslides that followed unusual capital movements quite out of proportion to what the trade could bear.

The upward movement of tariff seems to have been checked, at last temporarily, by the middle of 1927. The crisis of 1920-21 appears to have completely exhausted itself by 1924-25, monetary conditions were somewhat stabilised and the question of consolidating the tariff was seriously debated. The *modus operandi* of the forces of economic nationalism had not obviously impressed those who had been guiding the economic destinies of the nations. The electorates were clearly restive and more than one government

trembled on the precipice of high economic policy. The real issues could not yet be viewed free from the cloudy atmosphere of national hatred and jealousy and of the political controversies of the time.

The transient nature of the apparent economic poise obtained about the year 1927 was further revealed with the onset of the era of agricultural protectionism. It practically presaged the depression which overtook the world in the spring of 1931. The depression deepened, not entirely due to fortuitous circumstances, in the agricultural and the raw material producing countries. The impending crisis appeared in an emphatic form in Central and Eastern Europe. With trade outlets closed and heavy financial obligations to meet, and with migration restricted, they were used, in addition, as the dumping ground of oversea exporters. It is stated that it was Germany which by the Tariff Law of 1925 reimposing higher duties on food imports started the movement for agricultural protectionism. That might be the case, but the relapse to the fever of protectionism was common to almost all the countries. It was of a hectic and capricious character. Import duties on food and raw materials constituted one of the methods. These were in some countries supplemented by drastic administrative measures, *e.g.*, state controls or monopolies as in Norway, Sweden, Czechoslovakia and Switzerland; export bounties in South Africa and Roumania, encouragement of the export of cereals by the issue of "bonds" to exporters of grain in Germany, Poland, France, Austria and Czechoslovakia; tax on flour consumption in Hungary, besides milling regulations, quotas, import licenses, and the like.

Secondly, during the period preceding, there had been large capital movements which carried their own inherent financial instability. The increasing inability of trade to meet the liabilities created by the large scale lending and borrowing operations for reconstruction and other purposes was becoming more pronounced. The stoppage of long-term foreign investment since 1929-30 was both a symptom and a cause, precipitating the critical situation

which finally forced the world off gold. The alternative to paying back old debits by incurring new ones was to bring about an active export balance, but this expedient, the normal one in a competitive system, was no longer available. Even if the world trade could be maintained at the 1927 level, the decline in the price level alone would have rendered the question of the balancing of the international financial obligations a particularly difficult affair. As it was, the volume of trade declined heavily. During the three depression years 1930—32, the quantum of trade fell by 27 per cent compared to 1929. The decline was even more marked in the year 1933. The industrial production of the world also declined during 1929—32 by 30·6 per cent. During these years, the extent of the budget deficits of the borrowing countries, after allowing for the proceeds of loans and utilisation of balances, provides the aptest commentary on the entire situation. With all the avenues of international settlements closed, the situation was absolutely desperate.

It is in this background, a background presented by a set of wholly abnormal circumstances, that the rise of economic nationalism is to be studied. The point of our inquiry is, do these new-fangled ideas of economic nationalism represent a permanent breakaway from the old competitive order, or merely a set of arrangements for securing a transition to a new economic system? Those who have taken upon themselves the responsibility of planning the economic activities of the nation on a rational basis shall have to think out an answer to this question before they seek to impose a system of controls and interferences with the normal channels at economic activity. There are certain indications which point to a return of the world's faith in the doctrines of *laissez faire*. The efforts of 1933-34 have been definitely in the direction of an amelioration of the present hardships of trade and commerce. The problem of monetary instability and the necessity of international co-operation are being discussed, though yet without any fruitful result, by the leading countries of the world. It is realised that competition in tariffs and other forms of trade

restrictions do not improve upon, but in many respects are worse than, the pre-War competitive system which they seeks to replace. A system of tariffs, quotas and restrictions cannot but maintain the economic system as a whole on a margin of perpetual inefficiency and lower the standard of living. Such a system, though perhaps inescapable in the present circumstances, can hardly satisfy the ultimate requirements of a progressive community.

Certain tendencies may usefully be studied as indicating the direction in which world economy is moving. If I may be allowed to anticipate the results of such a study and state my view in a single sentence I would say that the world is moving towards a rational conception of the competitive system, to which all planning of to-day must necessarily have to be adjusted. Thus if there is no free trade to-day, there are, at any rate, ever-widening areas of free trade. The Inter-imperial Economic Conference which was held at Ottawa in July, 1932, was a typical effort of this kind. It is significant that the policy of free trade within the Empire did not commend itself to the Dominions, but the Conference, none the less, resulted in a lightening of the incidence of restrictive tariff within the Commonwealth. France is also at the present moment promoting a Conference of this kind. Regional trade agreements and customs unions might be found to be particularly advantageous to those countries whose trade with each other accounts for almost the whole of their international trade. Trade treaties, however, are very difficult to negotiate not only because of the incompleteness of such bargains and the slowness with which they become effective but also because of the triangular nature of most of our trade. *B* may be the cheapest market for *A* for the export of cotton goods, but *C* may be the cheapest market for her (*A*) to import raw cotton from. A bargain between *A* and *B* or *A* and *C* would, therefore, be incomplete and disadvantageous to one of the parties in any case, if the subject-matter of the bargain were raw cotton and cotton goods. Suitable regions which would be amenable to agreement and at the same time economically self-sufficient, being complementary to each other, are hard to

d'scover. Even the British Commonwealth of Nations which satisfies these two tests as proximately as any single region can has only been able through Ottawa to secure a diversion of trade instead of a net expansion. There is, further, always the threat of retaliation by countries which lose their export trade through such agreements by shutting down its own market to the export trade of the offending countries or by bringing about a state of cut-throat competition in the neutral markets. The only advantage secured by such agreements is that they give the parties concerned, through a stabilised market, a greater bargaining power with other countries. This bargaining power has been availed of by many countries, England not excepted.

What is true of trade and commerce is true also of finance. The future of the monetary standard is yet a stake in the chess-board of international finance. But the very interdependence of the financial mechanism of the modern world will sooner or later make for an international agreement. The "Sterlingaria" may fitly be a preface to such endeavour in the future. In fact, it goes without saying that an international monetary agreement must be a prelude to the restoration of healthy competitive conditions in trade and commerce rather than a sequel.

This gives us a picture, albeit in its rough outline, of what I have described as the tendency towards re-introducing the principle of competition in a more rational form than the form in which it inspired our economic activities in the past. All the circumstances prevailing now suggest that the competitive system of the future will be tempered and determined by the needs of co-operation. In the older competitive system, the satisfaction of mutual needs and desires was achieved through a process of trial and error, often at considerable loss and sacrifice. In the economic system of the future, this process would be reduced to a minimum through a co-ordination of efforts. Here there would be need for planning. Such planning would be national in the sense that the resources of each nation would be brought most completely to bear upon the common welfare of the world as a whole; it would be inter-

national in the sense that instead of there being wasteful competition between nation and nation, there would be a co-ordination of the productive and distributive machineries of the world, as for instance, by promoting a system of complementary production. The working of regional agreements and trade treaties and the co-operation of Central Banks securing an international co-ordination of credit, currency and investments will have provided sufficient experience to define the nature of future co-operation and lay down its terms and conditions.

The conclusions of this paper may now be summarized. It has been my endeavour to show that the competitive system has broken down under the stress of very abnormal circumstances prevailing in post-War Europe, that the trend of recent economic developments indicates that the breakdown is likely to be a temporary phenomenon, to be restored as soon as the existing artificial conditions of trade and commerce return to their normal position. A system of planning, consequently, that seeks its inspiration from, and exhausts itself completely in, the present conditions of trade, commerce and finance has no future. Economic policy tends in the direction of freer trade if not free trade, of which the main *motif* will be provided by international agreements as the means of securing the co-ordination of productive activities and a balance between productive and consuming power. Economic planning must thus be related to its international bearings. The future economic policy will take the form of discouraging the less and encouraging the more efficient forms of production in each country. Thus will competition be raised to a more rational and therefore less wasteful plane.

# AGRICULTURAL LABOUR IN BIHAR IN THE FIRST HALF OF THE NINETEENTH CENTURY

BY

PROF. BIMANBIHARI MAJUMDAR, M.A. (HIST. & ECON.),  
P.R.S.

The problem created by the increasing number of landless agricultural labourers is no less acute than that caused by the unemployed educated youth. It is worth enquiring, however, whether the condition of the agricultural labourers is progressively deteriorating. In this paper I shall try to draw a picture of the life of the agricultural labourer in Bihar in the first half of the nineteenth century and to compare it with their present condition.

Agricultural labourers in Bihar in the first half of the last century may be broadly divided into two classes—slaves and free labourers. Slavery was a recognised institution in all parts of Bihar in the first quarter of the nineteenth century and in the Santal Parganas it continued to exist as late as 1860. On the 27th January, 1789, the collector of Shahabad requested Lord Cornwallis to issue speedy instructions as to the manner in which he should determine cases of slavery.<sup>1</sup> In 1812 A. Welland, Circuit Judge, Nizamat Adawlat, decided a case in which Mussummat Sahib Jann of Patna City prosecuted Chamelee, a slave girl and Nuseem Hubshee, a slave boy on a charge of theft.<sup>2</sup> In 1808 the Mooftis, versed in the Mohammedan law, gave their opinion that slaves may be employed in “attending cattle, in tillage or cultivation.”<sup>3</sup> The “Statement exhibiting the moral and material progress and condition of India during the year 1859-60” informs us that a system of bondage had been long in

<sup>1</sup> *A Handbook of the Bihar and Orissa Provincial Records* (1933), p. 11.

<sup>2</sup> *Parliamentary Report on Slavery in India* (1828), p. 417.

<sup>3</sup> *Ibid.*, p. 805.

existence in the Santal Parganas. There were two kinds of bondsmen—Kameotee and Hurwahee. A Kameotee bondsman was one who in consideration of a loan bound himself and heirs to work for the money-lender until the money was repaid with interest. Though no stipulation used to be made in the bond for wages, food, or clothing, yet it was the practice to provide food to the bondsman in return of the services he rendered. As the entire service of the Kameotee bondsman was given to the bondholder it was impossible for him to earn sufficient to liberate himself from the engagement he had made. The Hurwahee bondsman did not live in the house of the bondholder but bound himself to work for the giver of the loan whenever his services might have been required. The Report states:—“They (the Hurwahee bondsmen) cannot cultivate any considerable portion of land, for when their own fields and crops demand attention, they are required to assist the bondholder in his cultivation, and so far from being able to liquidate the fatal debt, their utmost aim is to keep themselves from starvation during the period their services are not required by the bondholders.” The bondholders for the most part consisted of shopkeepers, merchants and Chowdhuries, who found it profitable to take land and cultivate it by slave labour. The existence of this system of bondage was not fully known until 1858. In that year several cases were brought to the notice of the authorities, and the bondsmen were at once released from their servitude.<sup>4</sup>

The practice of labourers selling themselves in consideration of a loan was not peculiar to the Santal Parganas alone. Dr. Buchanan in his Bhagalpur Report mentions of ploughmen, who having received loans varying from five to twenty rupees sold themselves to the money-lender for as long a period as they could not repay the loan. They had not to pay any interest, but they could not claim any wages for their services. They had to work every ploughing season for their masters, receiving daily about

<sup>4</sup> Statement showing the material and moral progress of India for 1859-60, pp. 62-63.

three seers of rice in the husk, or of some coarse grain. When there was no ploughing, the debtor had to weed or transplant, getting a trifle more than his usual allowance. He could earn a little more at the harvest. His total earning in allowance of grain and harvest came up to about rupees fifteen per year. Dr. Buchanan says, "The money advanced defrays the expense of marriages, funerals, and such ceremonies, and is lost when the labourer dies."<sup>5</sup> The lot of the Bhagalpur labourers was better than that of the Santal labourers inasmuch as the debt, which they had very little chance of repaying, did not descend from father to son. It may be mentioned in this connection that though slavery has been abolished long ago, yet in some parts of the country the debtor is forced to plough the land of his creditor without adequate remuneration, though interest is charged on the loan. Thus in the fifteenth Annual Report of the Patna College Chanakya Society we find that in the village Udhura, in the Buxur sub-division, district Shahabad, the creditors do not enforce repayment from the agricultural labourers, but employ one man from each family as ploughman.<sup>6</sup> The seventeenth Annual Report of the Chanakya Society states that if debts are not paid back in time, "the debtor becomes semi-slave to some extent to his creditor so long the due is not paid."<sup>7</sup> Debtors are not allowed to work for others without the permission of their creditors. In the Chapra district such ploughmen get 2 seers of grain daily, in the Gaya and Manbhum districts 3 seers, and in the Muzaffarpur district 4 seers of coarse grain.

Besides this class of debtor bondsmen there were also born slaves performing agricultural operations. Dr. Buchanan in his Purnea Report mentions a class of slaves, who were given a separate hut and small garden for themselves and their families. They were employed by Hindus of rank in the cultivation of small

5 Montgomery Martin—*Eastern India*, Vol. II, p. 226.

6 Fifteenth Annual Report of the Patna College Chanakya Society, 1927-28, p. 103

7 Seventeenth Annual Report of the same, 1929-30, p. 18.

free estates and rented lands. The man had to work continuously for his master. The master could also requisition the services of the women and children of his family, but in that case they were given fooding and clothing by him. The allowance usually given to a slave was a piece of coarse cloth and about  $12\frac{1}{2}$  mds. (985 lbs.) of grain annually. His wife's labour and his garden must have furnished him every other article of expense. The price of a lad of sixteen was from 12 to 20 rupees.<sup>8</sup> Dr. Buchanan also found slaves, belonging to the Rawani Kahar caste, and carrying on agricultural operations for their masters in the Shahabad district.<sup>9</sup> The slaves employed in agriculture were variously known in Bihar as Dhinggar, Khawas, and Sehana.

Coming now to the condition of the free farm labourers we find them broadly divided into three classes. Those who cultivated for a share of the crop belonged to the first, those who were hired by the month or season to the second, and those who were hired by the day to the third. Those belonging to the first class were called Adhiyars. They had stock sufficient to keep a plough, but had no land of their own. They had to plough the land, sow the seed, weed, and plant at their own expense. They generally borrowed the seed, which they had to repay at the rate of 100 per cent. They, however, did not reap the share of the crop due to the proprietor of the land; if they did they were paid additional wages besides their usual share of a half of the crop. Dr. Buchanan found Adhiyars in Dinajpur, Rungpur, Purnea,<sup>10</sup> Bhagalpur,<sup>11</sup> and other parts of Bihar. He opines that "their condition is very generally admitted to be better than that of hired servants or daily labourers."

<sup>8</sup> Francis Buchanan, *An Account of the District of Purnea in 1809-10* (published by B. and O. Research Society), pp. 162-163.

<sup>9</sup> Martin, *Eastern India—Shahabad*, p. 492.

<sup>10</sup> Dr. Buchanan, *An Account of the District of Purnea*, p. 443.

<sup>11</sup> Buchanan's *Bhagalpur Journal* (published in the B. and O. Research Society Journal, 1929), p. 397.

Those who were engaged by month or season might be divided into five heads—ploughmen, cowherds, Athoyaras or Chautharis, Bahaniyas and Krishans. The ploughmen were employed only for nine months in the year, and were allowed in addition to wages the harvest for themselves. They were not whole-time servants. They were allowed time to repair their huts where their family lived and to do other little jobs for themselves. In the Purnea district Dr. Buchanan found the earnings of a ploughman consisting of Rs. 4 8as. in money and  $\frac{1}{4}$  seer a day of grain allowance, the total coming to rupees six a year.<sup>12</sup> The condition of the hired ploughman in the Bhagalpur district was much better as “ his allowance of grain and harvest may amount to rupees fifteen a year.”<sup>13</sup> Their condition may be said to have improved a little now, as from a report of the survey of the village Udhura (Shahabad) in 1927 we find that a ploughman gets 3 seers of grain and one breakfast daily.<sup>14</sup>

In 1809-10 the person who tended plough cattle was allowed two annas a month and two chhataks of rice for six head. A boy of fourteen or fifteen could tend 24 oxen, and so his earnings came up to eight annas a month and half a seer of grain a day. In this respect a cowherd's allowance may be considered to have been higher than that of a ploughman, but the former were not allowed any harvest while the latter were. The wages of a boy cowherd was about three rupees a month in 1929 in the district of Muzaffarpur, as is known from the earnings of a boy, named Kalia, of ten years of age.<sup>15</sup> An able bodied man gets two rupees a month and fooding in the Bhagalpur district.

The Athoyaras or Chautharis were a class of labourers who received neither wages nor food but were allowed the free use of implements and cattle, with which they cultivated land which

<sup>12</sup> Dr. Buchanan, *An Account of the District of Purnea*, p. 444.

<sup>13</sup> Martin, *Eastern India*, Vol. II, p. 226.

<sup>14</sup> *Fifteenth Annual Report of the Chanakya Society*, p. 95.

<sup>15</sup> *Chanakya Society's Report 1929-30*, p. 25.

they rented for themselves as well as the land of the man who furnished the stock. The Athoyara had to plough twenty days in the month on his master's field, eight on his own, and two on that of the boy who tended the cattle. He was not required to weed or reap his master's land. Dr. Buchanan in his *Purnea Report* remarks—" Thus the use of a wretched stock of perhaps 40 rupees in value, for eight days in the month, is reckoned an adequate reward for 22 days' labour." Similar conditions prevailed in the Bhagalpur district too.<sup>16</sup> In the Gaya district the Athoyaras cultivate their own land for 15 days a month and are called Sharikdar; in the Chapra district they are allowed to work on their own land for 10 days a month. Those labourers, who possessed a little stock and one or two oxen were called Bahaniyas. They were allowed for each ox three days' ploughing in the month in their rented land, in addition to the usual allowance of the Athoyaras.

Dr. Buchanan noticed another class of labourers, called Krishan, in the southern corner of the Bhagalpur district. He describes their condition as follows:—" These have neither provisions, land, stock, nor seed, but borrow the whole, and cultivate as much as they can. When the crop has been reaped, and the expense of this operation deducted from the general mass, the master takes double the quantity of the seed. The remaining produce is divided into three equal shares, of which two go to the master, and one to the Kisan; and out of this he repays whatever provisions he has borrowed, with an addition of 50 per cent. Such people are exceedingly poor." At present in the southern part of Bhagalpur the landowner provides everything including seed and takes  $\frac{1}{3}$  of the produce in addition to the crop equivalent to the seed.

The condition of day labourers was not worse than that of those who were employed by the season. The wages of day labourer

<sup>16</sup> Dr. Buchanan, *Purnea Report*, p. 445. Martin, *Eastern India*, Vol. II, p. 227.

in Purnea was usually three pan of cawries a day or three seers of grain. Supposing that he would find work for 270 days in the year, his income would be 20 mds. of grain or about 12 rupees a year. His wife often laboured at the same employments and received fully as much as her husband. In the Shahabad district the lowest allowance given to the day labourer for mere reaping was nearly  $3\frac{3}{4}$  per cent of the gross produce, while the highest allowance amounted to about  $8\frac{3}{4}$  per cent. Usually a man could reap 195 lbs. of grain daily, and his allowance was rather more than 6 per cent. This amounts to about 6 seers of grain a day. In the Bhagalpur district as in Purnea a day labourer received "3 seers of grain a day, or money and grain to the value of between  $\frac{3}{4}$  anna to 1 anna a day." Dr. Buchanan states that the reapers in Shahabad were allowed "in various parts from one bundle in twenty, to one in thirty-two, of what they reap." The fifteenth Annual Report of the Chanakya Society also informs us that in the Buxur sub-division of the Shahabad district 1 bundle for every 20 reaped is the usual allowance of the reapers now and similar condition prevails in Chapra too. In consideration of the fact that the cost of living of all classes of people has risen very high during the last 125 years, the condition of the reapers must be said to have deteriorated. The same report states that the wages of sowers and weeders were annas two and one breakfast per day in 1927. In the Muzaffarpur district, however, the wages of agricultural labourers were four annas per day in 1929.<sup>17</sup> A labourer named Mangal and his sons named Dhawal and Dahawr being employed for 208 days in the year 1929 received  $45\frac{1}{2}$  maunds of grain, valued at Rs. 113 only.<sup>18</sup> This gives an average income of about 15 mds. of grain per head, whereas in 1810 the average income of a day labourer was 20 mds. of grain in the Purnea district.

Mr. Arthur Crooke, a Liverpool merchant engaged in sugar-cane cultivation in the Saran district during the period between

<sup>17</sup> *Chanakya Society's Report 1929-30*, p. 35.

<sup>18</sup> *Ibid.*, pp. 16-27.

1840 and 1845, said in his evidence before the Select Committee on Sugar and Coffee planting: "We pay a labourer, a man that works with a hoe, an able-bodied labourer, 5 pice a day; 100 pice are a rupee, 20 men for 2 shillings; about 1½d. a day per man." He also remarked that the work of six Indian labourers was equal to one negro employed in the West Indies.<sup>19</sup>

<sup>19</sup> First Report from the Select Committee on Sugar and Coffee Planting, 1848, p. 15.

# THE THEORY OF INTERNATIONAL PRICES

BY

PROFESSOR B. P. ADARKAR.

*Benares Hindu University.*

International trade theories may be classified under two broad heads as those falling within the group of generalisations relating to the monetary side and those pertaining to the real economics of international dealings. In classical economic theory, the real economics side received more than its due share of attention as may be seen from the very searching manner in which problems such as the Gain from international trade, international specialisation based on comparative costs, barter terms of trade, and so forth, had been investigated. The monetary aspects were comparatively neglected except in some discursive *obiter dicta* by Thornton, Ricardo, Mill and Marshall. The classical writers were (and some of the Austrians still are) fond of proceeding from assumptions of barter to the solution of international trade problems, in the belief that somehow barter economy provided some kind of norm upon which to build valid notions regarding the facts of the day-to-day world. It is one thing, however, to start from assumptions of barter, which does not exist, and quite another to investigate the "real" side of transactions which are actually taking place and which are governed by considerations of a money economy. In other words, the real economics of barter being different from the real economics obtaining under the money economy itself (*e.g.*, the real ratio of trade, real wages, the real rate of interest, etc., are notions in this), the classical statement of the monetary side of international trade and especially of the theory of international prices, had been hopelessly confused. This state of affairs has been partly remedied by the harvest of monetary experience which we have reaped during the unhappy

years of upheaval and chaos which have followed the Great War and which mark a new era of industrial and agricultural revolutions synchronising with one of the greatest depressions that the world has ever seen. A complete, unified and universally acceptable theory of international prices, however, is still to be formulated. It is hoped that the following remarks would make some small contribution to the formulation of such a theory.

## I

With his great synthetic genius, Gustav Cassel first successfully essayed this task by reviving the Purchasing Power Parity doctrine which Wheatley had been the first to clearly formulate. Cassel initially stated this theory in its crude form when he said that the rates of exchange between the currencies of any two countries would normally reflect the relation between the internal purchasing powers of their currencies. But this crude form of his theory was open to so many objections that he was attacked on all sides and writers like Taussig, who themselves had formerly supported a similar doctrine in the traditional style, put themselves in the opposite camp. The controversy centred on the avoidable topic of causation, *i.e.*, whether the sequence of events was from prices to exchanges or *vise versa*, on the part played by factors such as exports of capital, transport costs, tariffs and speculation and on the relation between the old theory of reciprocal demands for currencies caused by the balance of payments on the one hand and the new theory of Purchasing Power Parity on the other. In view of these and other points raised by his critics, Cassel had to revise his position and restate his doctrine. He declared, and quite rightly too, that these themselves had been his assumptions, *viz.*, that the speculative element was non-operative, that there was neither prohibition nor prevention of imports and exports by fiscal measures, that there were no continuous one-sided movements of funds on account of foreign investments or any great changes in transport costs. Moreover, he also insisted that by his doctrine

he was not laying down an exchange norm for currencies in the absolute sense of the purchasing power parities at a given moment of time, but that "When two currencies have been inflated a new rate of exchange will establish which is equal to the old rate of exchange multiplied by the quotient between the degrees of inflation in the two currencies."<sup>1</sup> This, the comparative part of his doctrine, he claimed, still remained true and it was not, he maintained, such a self-evident truism as some latter-day economists had tried to make out.

That the doctrine of Purchasing Power Parity is nothing better than a truism and, hedged in with so many assumptions and conditions, it is shorn of all practical value, is the view to which distinguished economists like Keynes<sup>2</sup> and Bertil Ohlin<sup>3</sup> have been led mainly as a result of investigations in the relationship between prices and exchanges. Owing to the interactions of the many forces (which vitiate the value of the theory) the courses of prices and exchange rates in the various countries have not been in strict correspondence with the norms suggested by the theory. Factors affecting differential wholesale prices, according to Ohlin, have been conditions of production (supply of labour, capital, technical processes, taxation, etc.); conditions of local demand; conditions of transport; tariffs and other obstacles to trade; and international movements of loanable funds. Moreover, as has been pointed out by Keynes, in particular, and by a host of other writers, there is no particular reason why the internal purchasing power of a currency as a whole should have any bearing upon the exchange situation and as a fact the "sheltered" price levels in different countries might diverge considerably, exercising such a pull on the wider category of internal price levels, that there would be no point left in speaking of a purchasing power parity based on such price levels as determining the exchanges. If, on the other

<sup>1</sup> *Post-War Monetary Stabilisation*, p. 23.

<sup>2</sup> *Treatise on Money*.

<sup>3</sup> *Interregional and International Trade*.

hand, we confined our attention merely to the price level of internationally traded goods, the theory would be little better than a truism, as it is indeed the business of international traders to see that the prices of such goods remain in parity all over the world. Such was the criticism of Keynes, but in the same pronouncement on the subject he also held that on the whole the wholesale price levels of various countries did reflect the relationship faithfully and that with modifications necessitated by the foregoing assumptions, the theory should be accepted. Cassel, of course, replied that there was never any definite group of commodities that could belong to the international price level, but that this group was continually widening and shrinking according to the vicissitudes of foreign trade. None the less, Keynes' objection as it stood then has been reinforced by his subsequent discovery that the wholesale price levels of different countries, which he fondly compared, contained a large element of international prices, which must indeed reflect the *de facto* exchange positions. That there are degrees of tradability of goods may at once be conceded; but the fact remains, and it is borne out by statistics, that there are a number of goods of purely internal connotation which can by no stretch of imagination be regarded as affecting the exchange positions.

All that, therefore, we can probably claim is that the truism is neither so self-evident nor so devoid of usefulness as is commonly supposed. In that sense it may even be contended that the quantity theory of money, even in its modern refinements, also can be regarded as a truism. Yet how many knotty problems have not been tackled with the help of that piece of boredom! I should not, therefore, go to the length of discarding the notion of purchasing power parity altogether but try to give it a constructive meaning. The possibilities for this open up as soon as we begin to speculate as to what could happen under dynamic conditions of monetary change. It must be granted that although Cassel's formula, as it stands, misses the bull's eye, there is a sense in which we can speak of the international price level of a country as being

affected by an active internal inflation or deflation. Of course, the international price level would not rise or fall so much as the "sheltered" price level, being the resultant of international forces of supply and demand; yet it is fallacious to say that the country's international price level would remain steady, only the demand being intensified or reduced. There is no sense in which we can speak of such a thing happening, at any rate, in the short period; it is only through partial rises or falls in the international price level of the country concerned that the whole machinery will be set in motion gathering the proximate forces of reciprocal demands and causing, in Taussig's words, "a mutual impact of two quantities," *viz.*, of claims maturing on both sides on account of reciprocal transactions.

It is, thus, strictly speaking a problem of the diffusion of international prices, in the solution of which we have to inquire into the degree of ease and quickness with which an initial monetary change in a country tends to spread itself on to the province of international price groups. On the other hand, I agree that it is definitely wrong to imply any causation or determination of exchange rates by prices or *vice versa*. In the first place, the classical theory of balance of payments gives a more adequate explanation of the *de facto* rates of exchange and in that connection, owing to absence of positive data it is difficult to prove the validity of the Purchasing Power Parity theory. Secondly, in Cassel's theory it would appear purchasing power and exchange equilibrium are merely different expressions of the same underlying fact of monetary change; they indicate what *ought* to be rather than what *is*; and the sphere of what is is likely to be under the influence of so many outside forces that the actual trend of exchange rates may be permanently out of harmony with the exchange norms suggested by the purchasing power parities. It is not, as is commonly supposed, a question of the long period or short period in which this theory may be said to hold practically true; even in its revised form it may fail to show any correspondence with the phenomena of actual life. A country might be permanently sheltering itself

behind tariff walls; another might be pursuing' a steady policy of international investment; a third might be a country of long distances entailing enormous costs of transport liable to frequent variation. In these cases, the norms might be permanently ignored by the actual course of exchanges. Where then lies the usefulness of Cassel's theory? It lies, in my view, in giving us a bed-rock on which to construct the basis of a theoretical norm<sup>4</sup> for exchange rates. Cassel's great merit lay in pointing out what should happen in normal circumstances and laying his finger precisely on one of the root causes of the depreciating exchanges of Europe in the post-War years. His error, on the other hand, lay in exaggerating the part played by purchasing power parities in the "determination" of exchange norms.

## II

I shall now briefly refer to another standpoint from which Cassel's theory has been attacked by high authorities. That standpoint is as follows. Keynes and some other writers believe that one important drawback of Cassel's theory is that it takes hardly any notice of the changing real ratios of trade (the "equations of exchange") between countries, which so fundamentally alter the conditions of trade that it is impossible for exchanges permanently to reflect purchasing power parities. The equation of exchange for any country is given, roughly speaking, by the relation between the prices of its imports and exports. Now this relation is of fundamental importance to trade, in that if it becomes adverse, it is bound to upset existing equilibria to an extent which is sure to have repercussions on the rates of exchange. Thus, suppose there are countries A and B, with currencies  $a$  and  $b$  respectively, producing commodities  $x$  and  $y$ , so that in an initial state of equilibrium a unit of  $x$  exchanges for a unit of  $y$  and that

<sup>4</sup> It does not, however, follow that such a norm would, under all circumstances, be the right one for countries to follow.

$a$ , the price of a unit of  $x$ , equals  $b$ , the price of one unit of  $y$ . Now supposing the real ratio alters in such a way that one unit of  $x$  becomes equivalent to  $2y$ , the new equilibrium will be  $a=2b$ , if the level of incomes is assumed to remain unaltered. This, however, would be an undue simplification of the problem. The argument appears to be that even without any disturbance taking place in the purchasing power parities (in the Casselian sense), the composition of the international price level of a country consisting of import and export prices might alter in suchwise that the *de facto* exchanges would fail to correspond with the parities calculated.

Now this subject of the real ratio of trade as affecting exchange equilibria is somewhat confusing and I notice that even Cassel has slightly modified his position in his recent edition of the *Theory of Social Economy*. Yet I have some misgivings as to the validity of this objection against the Purchasing Power Parity theory. The objection is somewhat in the classical style and in line with the balance of payments theory of exchanges in that it suggests that if the relative positions of the import and export price levels alter, the effect on the exchanges will be *via* the balance of payments. In this connection, it is rather characteristic that while the revised Casselian doctrine takes into consideration the international price level as a whole, this objection divides up that price level into its component parts, *viz.*, import and export prices, and considers their relation *inter se*. Yet, while I admit that it might upset Cassel's position so far as the international price level as a whole is concerned, I very much doubt if our position as to the so-called truism is affected. The truism must always remain a truism. The international price level, even in the comparative dynamic sense of moving price levels, must give us a parity which would conform to the exchange equilibria. The composition of internal price levels might change adversely or favourably, but the exchange equilibrium, postulated under the assumptions mentioned above, must stand. This, of course, involves a change in the structures of incomes and prices internally, but the main position would still remain true. The change in the income

structure, it should be noted, will *gradually* work out through a readjusted balance of payments with the goods value of exports rising and that of imports falling.

I should like to make one more observation regarding the rôle of the real ratio of trade in the scheme of the international price structure. It appears to me that the effects of tariffs, of one-sided transfers of wealth and of changes in transport costs upon the real ratio are somewhat exaggerated. The exaggeration is due in a large measure to the undue preoccupation of economists with bilateral trade in their discussions, and to their occasional neglect of the fact that international prices are determined by world-wide forces of supply and demand. In spite of some penetrating researches made into this subject by writers like Taussig, Jacob Viner, Ohlin and others, I am inclined to think that the specific effects of tariffs, loans and transport costs on the real ratio of trade, have not been clearly separated from the effects on it of the general conditions of international demand and supply relating to imports and exports. This perhaps is an impossible task; but the fact remains that the possibility of multi-angular trade reduces the chance of the real ratio of any country being adverse or favourable due to temporary causes confined to its own economy. Such changes do indeed belong to the long period and not to the short or intermediate period. This is not to deny, however, that the above factors of tariffs and loans would affect the *de facto* exchanges or even the exchange equilibrium, but such a result would be due to their action upon the balance of payments; the effects will not be, in any case, communicated *via* the real ratio necessarily.

To sum up, then, the Purchasing Power Parity theory has still some useful purpose to serve in the scheme of international values. That purpose, however, is not dependent upon our accepting either the absolute or the comparative part of the doctrine; nor need we refine the crude statement of the parity as based upon *internal* prices by saying that it might work itself out in the end, in the long run. Neither in the short nor in the long period has Cassel's doctrine any validity if the internal price level *as a whole* is

implied; for, that price level is demonstrably not involved in a discussion of exchange norms. All the objections raised against Cassel's position become strong, if we take internal purchasing power parity as determining exchange equilibria. If, however, we fix our attention on international prices, we get a bed-rock for constructing a plausible theory of exchange norms. We can then follow the chain of events started by inflations and deflations of a currency and inquire into the diffusion of these into the international price groups of the country concerned, and their reactions upon the position of exchange norms. Conversely, under a regime of fixed exchanges we can watch the processes of change initiated by fluctuations of international prices abroad and communicated through the exchanges to the international price level of the given country. It is this diffusion of prices which gives our new version of the Purchasing Power Parity theory, so far rejected as a truism, a meaning which raises it to a new importance in the theory of international prices.

### III

In this section, I shall now pay attention to certain recent discussions on the problem of the "natural" level of exchange rates. Since England went off the gold standard and paved the way for its abandonment by several other countries, this problem has come to the fore owing to the orgy of competitive depreciations which has followed. The question is being hotly debated today as to what are the proper exchange levels for the pound, the dollar, and the franc and in each country there are people who think that the other's currency is unduly depreciated. As all these currencies cannot be over-depreciated in terms of one another at the same time, the methodology of determining the degree of depreciation becomes at once a quest of some significance. Now it is one of the drawbacks of Cassel's doctrine, even as modified here, that international prices are so sensitive to movements of exchanges that the calculation of purchasing power parity can always be relied upon to prove that the *de facto* rate at any time

is also the equilibrium rate, and this drawback has unfortunately distorted many hasty applications of the formula to actual facts. The only legitimate application should have been to discover the extent to which international prices in any country have been inflated or deflated as from a previous equilibrium, as a result of pegging the exchange ratio at an unduly low or high level; often when no other monetary action has been taken such a calculation is practicable and should give satisfactory results. A further proof would be available if we compared the relative courses of the international and sheltered price levels of the country concerned. Mere comparisons of wholesale prices or of cost of living indices, however, would be beside the point altogether.

There is still another angle from which possibly we could view this question. The *Economist* of London has been recently calculating exchange equilibria for the dollar and the pound in a series of articles<sup>5</sup> on the subject and has suggested a novel method which might be useful to us over here who have been for years pestered by some kind of exchange standard or other. The method may be well described with a quotation from this Journal: "The equilibrium rate between the pound and the dollar is the rate which would put the two countries on a fair competitive footing. It is consequently the rate which would so adjust the relative costs of production that the volume of exports of each country would be sufficient and no more than sufficient to bring its balance of payments into equilibrium. In the short period, costs of production can roughly be assumed to vary with wage rates. Hence a calculation of 'cost of production parity,' based on the movements of wage rates, should provide a useful check upon calculation of 'purchasing power parity.'" This statement looks like an omnibus theorem in so far as it seeks to reconcile two really divergent aims, *viz.*, of equilibrating the balance of payments and of putting countries on a "fair competitive footing." Still it provides a new clue to exchange management in a world which is

<sup>5</sup> See numbers, 17 June, 1933, 18 November, 1933 and 27 October, 1934.

getting more and more entangled in a monetary maze. The whole philosophy of exchange depreciation, at the moment at any rate, seems to be pervaded by the ambition to capture foreign markets and encourage exports. Thus in many countries the relation between international prices and internal costs has been neglected to the disadvantage of the internal trade, as there is little or no inflation in internal prices. This kind of tinkering with the exchanges can scarcely have any permanent effects on either international trade or business recovery, as one nation's gain would be another's loss and if all countries depreciate their exchanges they will remain just where they were, so that on the balance there would be hardly any progress at all. Therefore, it appears to me that this method of calculating "cost parities" would be very suitable as a corroboration or check upon the "price parities." The only reservations I wish to make are, firstly, that to base the cost parities on the movement of wage rates even in the short period would give fantastic results, for the simple reason that the efficiency costs, even in the short period, are very much liable to alteration when efficiency is rapidly increasing. Secondly, it need not be supposed that these cost parities are any more precise as indications of exchange equilibria than price parities can be. Almost all the assumptions which we have to make for the price parity doctrine also apply here.

#### IV

This leads me to another aspect of international monetary policy which to me appears to be more fundamental even than the foregoing cost parity notion. With the collapse of the gold standard caused by the failure of nations to observe the "rules of the game," a properly managed international standard seems to be now quite outside practical politics for many years to come. Perhaps it may never come. The gold standard was becoming more and more incompatible with a social system, in which welfare was being safeguarded on national lines, in which race, colour, politics, culture and economic life were all commensurate with

political boundaries. The absence of a Super-State, which would achieve all the far-off dreams of philosophers and, above all, make mankind interuationally-minded so as to enable them to share their joys and sorrows in common, and make available to all alike the fruits of scientific progress, rendered the gold standard a mere ludicrousness in the scheme of world affairs. It was one of the best things that could, therefore, happen to the world that King Gold was dethroned, in most countries, and the way cleared for a saner and more scientific currency management.

Apart from the strangling effects of trade barriers, one of the main reasons why international trade has come to a standstill in recent years is, I think, to be found in the disastrous fall in the international price level *relative* to internal cost groups and price groups, a fall which has been rightly attributed to the shrinking gold standard. It no longer pays the producer for export to engage himself in the exporting activity because the margin between home costs and international prices has not only dwindled to nothing but has come to be actually negative. The margin between home costs and internal prices, on the other hand, gives better opportunities of profit and this being the case, the producer is increasingly getting interested in the home market. In these circumstances it may be advisable to maintain some kind of balance between internal and foreign trade, by so adjusting the respective price levels as to leave an equal margin of profit in both. Looking at the problem from this angle, it should be evident that to get a stability of foreign trade we shall have to manage our exchanges in such a way that international prices would correspond to internal costs. Now this objective of management is not identical with the foregoing one of cost parity, but is quite different and can be used as a subsidiary weapon for keeping internal stability by a tabular standard. Such management of exchanges will not be incompatible with the independent management of money with a view to internal stability, as the price groups concerned are more or less distinct, and even if at times mutually contrary aims have to be pursued, the forces of monetary friction

would not permit diffusion of impulses to take place for more than a short time or to any great extent. Anyhow it is necessary to insulate the economic system of a country against outside disturbances which under modern conditions are unfortunately only too often prone to occur.

In this connection, I would, before concluding, like to add a few more words regarding the question of exchange stability. Many people seem to be fond of speaking of *exchange* stability and *external* stability as if they were identical terms and conveyed identical notions. This is definitely wrong, *e.g.*, if the dollar is pegged at a fixed ratio in terms of sterling, we might get exchange stability, but whether we would get *external* stability, either in the sense of zero gold exports or stability of the external price level or, even for the matter of that, an equilibrium in the balance of payments over a series of years, is a dubious matter. It is quite possible for the dollar and sterling to be at fixed parity and at the same time fluctuate together in terms of internationally traded goods. Similarly, just because you have exchange stability you cannot have the gold exports at the zero level or a balanced state of affairs in the capital account of the country. Both these propositions look quite elementary but they are often disregarded in current discussions. For example, it is believed that if you have exchange stability you will also have stable conditions of foreign trade. This is *not* true. Exchange stability protects only the *middleman* and reduces his risks arising from exchange fluctuations. There is no reason, however, to believe that, except to the extent that raw materials may be imported with a view to refinement and re-export, the *producer* will be protected; his costs will be governed by domestic considerations and must be sticky, while his prices will depend on the vagaries of the international standard, whatever that might be.

To sum up, therefore, and to bring together the threads of the foregoing arguments, I should, firstly, emphasise that Cassel's Purchasing Power Parity theory is not already a back number as is commonly supposed, but, revised so as to remain what it is a

very illuminating truism, it is still capable of application where monetary inflations or deflations have taken place and have been diffused, or where the exchange has been pegged at an unduly high or low level, thus causing international prices in terms of the given currency to fall or rise. Secondly, we are now in a position to check the price parity thus provided with the newly conceived "cost parity," and secure the ends of monetary policy, which regards exchange stability as the main ideal. However, to turn to a third and perhaps a better ideal, *viz.*, internal stability of production and trade which is not wholly incompatible with stability of the foreign trade, it would be even better to establish a definite relation between international prices and domestic costs with moving exchanges than to stabilise the exchanges at a level suggested by the cost and price parities.

## THE THEORY OF INTERNATIONAL TRADE

BY

PROF. V. G. KALE,

*Poona.*

The elaborate discussion one finds in economic literature of the old theory of international trade as propounded by Ricardo and developed by J. S. Mill or as further modified by later thinkers, may pardonably be characterised as 'much ado about nothing.' To me personally, it is an interesting coincidence that under the auspices of the Fatna University to whose kind hospitality we, in this Conference, are so much indebted, I had occasion, six years ago, to discuss this very theory of international trade when I had the privilege to deliver the Banaili Readership lectures which had for their theme, the Economics of Protection in India. To the question whether there is a theory of international trade which is essentially different from the theory of national or internal trade, I then gave the answer 'No' and pointed out how Ricardo's conception of a dualism in the theory of value, one theory, that of cost of production or labour cost, applying to internal trade and the other, the theory of comparative costs, holding good of international trade, had created unnecessary confusion from which even J. S. Mill could not extricate himself though he caught a glimpse of the more acceptable modern theory of value and price. Internal trade and international trade are not so essentially different that the two sets of phenomena cannot be explained on the basis of one common theory of market prices. I concluded my examination of the old theory with these words:—"The value of a commodity obtained by means of exchange is said to depend on the relative quantities exchanged and the cost of producing them in the respective countries. This is, however, equally true of internal exchange, since there also the price equilibrium is

established on the relation between demand and cost, though the relation is not so obvious. In fact, all value is governed by comparative marginal utility or demand or comparative marginal cost which means 'reciprocal demand,' which is the same thing as comparative costs. In internal as well as external exchange, it is the comparative advantage conferred by the transaction that induces persons to exchange objects or buy and sell, and it is not necessarily absolute but relative advantage that is the foundation of all exchange."

This brief statement regarding the correct position as to the theory of international trade may be conveniently taken as the starting point for a more critical examination of the classical doctrine and the enunciation of the general theory of 'price-building' or pricing as a satisfactory explanation of the phenomena of international intercourse. A theory of international trade will be adequate when it not only fits the abstractions and simplifications of limited assumptions but when it covers the extensive field of economic relations that develop between nations in modern world economy. Economists have very naturally been assuming more or less free competition and nobility of the factors of production and also the smooth working of the gold standard, and cases of departure from such normal conditions have been treated as exceptions, as usual, exceptions being supposed to prove the rule. But now, in contemporary world economy, it appears as if the exceptions have themselves become the rule. What has the economic theory of international trade to say to this? Will these facts be dismissed as abnormal and as lying outside its purview, on the ground that they are non-economic developments? Or, can they be assimilated as factors which can be taken proper account of in the theory of price formation? The old controversy with regard to free trade and protection did take notice of some of these outside elements, but that kind of treatment of the subject can no longer suffice when the internal relations of world economy appear to have radically changed. During post-war years, the mobility of the factors of production has been severely restricted

and the terms on which external as well as internal trade can be transacted are being imposed by national governments which are, themselves, entering, on behalf of their peoples, into trade agreements with other governments. What has the theory of international trade to say in respect of these world-wide phenomena which cannot be disposed of as exceptional cases of monopoly or as a mere passing phase of economic life but have to be seriously considered as things that have come to stay. Economic theories are often used to support certain national policies in respect of trade and industries, and this is true of free trade as much as of protection. It is, therefore, essential that a clear and comprehensive theory should be formulated which will cover international economic relations as we find them to-day, in a more or less well-developed condition, irrespectively of the manner in which it may be employed to support or oppose actual national policies in matters of trade.

With regard to the defects of the classical doctrine, it may be pointed out that in the first place, it is restricted to the exchange of commodities and barter and takes no account of other important international relations such as the rendering of a variety of services which are very profitable to certain countries but which cannot be brought within the four corners of the theory of comparative costs. Even when so restricted, the theory has no application to cases where there is no question of nations being in a position to determine, on the ground of the comparative cost, the relative advantage of local production and import from outside. Where natural conditions, for instance, make it impossible to produce certain goods locally, it is not comparative cost but comparative demand and purchasing power that is decisive. Secondly, the assumption that capital and labour contribute in the same proportions to the production of all goods and that costs remain proportional with increased output, is indefensible. Differences in the rates of interest and wages are known to affect industrial costs and therefore exchange and cannot safely be ignored, as has been done by some thinkers. Industries in different countries may have

their operation subject to constant, or increasing costs, and this is bound to have its effect on international exchange. Factors of production working differently in combination, will exert varying influence on costs, which, in their turn, will affect the terms of exchange between countries. The principle of proportional costs is utterly untenable. Further, the simplification in the orthodox doctrine with reference to different categories of labour and the exclusion of money, from the analysis, are equally unsatisfactory. In modern international trade it is money prices and money costs that count. The money income of a nation and of different classes of its people, have a good deal to do with demand for goods, since cheap imports from abroad must affect the prices of other commodities within a country. The condition of international trade cannot be properly understood if one calculates only 'natural costs' of production and does not take into account effective demand expressed in terms of money. Prof. B. Ohlin, whose work on "Interregional and International Trade" is an extremely valuable contribution to the study of this problem, remarks:—"The assumption of fixed relative incomes of different categories of labour has led the classical doctrine, even in its modern form, to avoid the important problem of the connection between international trade and income distribution . . . The fact that the influence of international trade on the distribution of income is overlooked, is closely connected with the unfortunate assumption that the cost of production, measured in terms of quantities of labour, does not vary with the amount of goods produced . . ."

Other defects and deficiencies in the classical doctrine can be indicated, for instance, the assumption of full and restricted mobility in internal and external intercourse respectively and the peculiar conception of the gain secured by nations from international trade. But the comments already offered are enough to suggest the necessity of formulating a new theory in the place of the old one, and the suggestion is by no means a reflection on the great pioneers in the field of systematised economic thought.

Later economic developments and closer reflection have made this revision or rather substitution essential. And the new theory is nothing but the extension and application to the phenomena of international trade, of the general theory of market price formation, as it has been developed by several thinkers during the past few years, *e.g.*, Cassel. Whatever name it bears (Prof. Ohlin calls his, 'the mutual-interdependence theory of pricing'), and whatever the form in which it is presented, the underlying principle is the same. Since international, like internal, trade consists of exchange of goods and services, the conditions in which it is carried on, are the same, only being more complicated and on a much extensive scale. It is an elementary economic concept that persons exchange goods and services because that operation means to each a saving of labour or trouble or cost or the securing of extra satisfaction. This is equally true of groups of persons living in different territories and considered as separate units. It is to their mutual advantage to import goods of which indigenous manufacture is impracticable or which it would cost them dear to make locally and to export those that can be cheaply made by themselves. In simplifying conditions of interregional trade, Prof. Ohlin sums up the discussion thus:—"The first condition of trade is that some goods can be produced more cheaply in one region than in another. In each of them the cheap goods are those containing relatively great quantities of the factors cheaper than in the other regions. These cheap goods make up exports, whereas goods which can be more cheaply produced in the other regions are imported. We may say, therefore, that exports are in each region composed of articles into the production of which enter large quantities of cheap factors. In brief, commodities containing a large proportion of dear factors are imported, and those containing a large proportion of cheap factors are exported."

It has to be borne in mind, of course, that when we speak of cheapness and dearness of goods, that fact can be ascertained only when an exchange rate has been established between the two currencies of the exchanging groups. And that rate is determined

by the conditions of reciprocal demand, that is, by all the basic conditions involved in all price-formation. All the elements that constitute the price mechanism that have to be thus fully considered in the problem, Prof. Ohlin designates as 'the system of mutual interdependence.' Regions are differently endowed with the agents of production and are superior to one another in some of them. And it is this varying productive power equipment that is the main cause of those inequalities in the costs of production and prices which lead to trade. Given the will and the power to purchase, which are very properly emphasised in this connection by Franz Eulenburg in "Grundriss der Sozialökonomik," Vol. VIII, the relative inequality of the supply of productive equipment will result in an inequality in relative factors and goods, and after an exchange rate has been established, one region's abundant factors will be found to be cheaper and the factors in insufficient supply dearer than those in the other. The fact to be specially noted here is that factors of production enter into the production of different commodities in different proportions, that relative prices of the factors are different in different countries and that, therefore, specialisation in production in different parts of a country or in different countries, is found to be profitable. The assumption in the orthodox doctrine, dominated by the labour cost theory, of proportionality between the quantities of all factors of production, except land, in all industries, renders the whole study of international trade unreal and unfruitful. This aspect of the problem has been ignored by thinkers who have attempted a modification of the classical theory. So long as the basic conception of the old theory that factors of production, except land, enter in the same proportion into all goods, is not abandoned, a modification of it cannot register a real advance and is hardly calculated to be very helpful.

Though the expression 'division of labour' is not happy, the idea underlying it, may be conveniently extended from internal to international trade. The theory of 'localisation of industry' is useful in explaining why and how the combination of productive

factors in one region makes it advantageous to its people to exchange a particular commodity for another from another region, in the supply of which local production is not attended with equally favourable conditions. It is the 'disproportionality of productive powers' that leads to specialisation and localisation in industrial effort: and the economic intercourse can cross national boundaries if the difficulties connected with distance and the cost of transport as well as those involved in the payment of prices can be offset by corresponding specially favourable factors associated with supply or keenness of demand, on the other side. In world economy and the so-called world market, a number of countries will compete, just as individuals within a national economy, and that country will here have a superiority which can supply the largest quantity, produced at the lowest cost. Countries which are just able to cover their cost in supplying the world market with a specific commodity, will stand at the margin and others, which can contribute a large quota to the total supply at lower cost, will enjoy a special advantage and will secure varying margins of profit from international trade.

The theory of international trade refers to 'nations' merely in a formal way and does not treat them as personalities or corporations having and exercising a will of their own. As the desire to earn the largest advantage was assumed to be the impelling motive in individuals engaged in economic activities, and since free play allowed to mutual intercourse thus motivated, was supposed to yield the greatest good of the greatest number, outside interference and control were deprecated and the nation was considered merely as an aggregate of self-centred individual citizens. This conception dominated economic theory of international trade although tariffs and subsidies and prohibition and regulation were the order of the day in world economy and cartels and trusts determined and dictated prices in a manner that was hardly in conformity with the principle of the localisation of industries discussed above. These aberrations are no longer exceptional cases, and Governments are taking a hand, as a normal

procedure, in influencing the supply and demand sides of the price equation and are regulating internal and international trade into specific channels. International trade is thus tending to become truly international, in the sense that it is being more or less consciously and deliberately directed on behalf of peoples of nations, organised in States. There are two forces working together in the world: one is an effort on the part of organised nations to promote manysidedness in their economic activities and to become self-sufficient as far as possible, and the second, effort at adjustment to world intercourse, consistent with the attainment of the largest measure of independence. The futility of absolute self-sufficiency is well recognised, and national planning is being so attempted that the two forces may be properly coordinated. There is no question here of a 'territorial division of labour' nor of an international one, which is based upon that idea. The advantageous combination of the factors of production will, of course, be utilised in international competition in the world market and will also be manipulated by the State according to selected schemes of national planning.

Do these new tendencies mean that there is an end of world economy and that economists must roll up those pages of their books which contain an investigation and exposition of the theory of international trade? Nothing of the kind. What is happening is that world economy is being reconstructed on a new basis and that intercourse between countries will now be guided not by the motive of individual self-interest but by that of national self-interest as it is conceived by those in political authority. As the monopolist cannot escape the operation of the laws governing market prices, nations will not be able to override the laws regulating international trade. The costs of competitors in the world market will be determined in accordance with conditions created or allowed by national policies and the demand of people for commodities will also be influenced by schemes of national development and well-being. The nation is a kind of partnership and its members are expected to share in the weal and the woe

of one another. Members of the national community bear burdens in the way of taxation and otherwise in order that the whole may be able to live a better life and that the efficiency and well-being of the mass of the people may be promoted. The increased cost entailed by the action of the national State in the manipulation of tariffs and prices, becomes a truly social and national cost and the compensation for this sacrifice is provided by corresponding benefits which may not be amenable to economic measurement. Trade agreements between nations are intended to fix demand prices in such a way as to permit each other to offer supplies at costs well within the margin that is effective for others. The economist has, in all these arrangements, a wide field for fruitful study. He will find that a spirit of nationalism and of a new type of internationalism, different from what one has long been familiar with, is taking possession of the world. What sort of equilibrium the adjustments now proceeding, will bring, it is difficult to predict. We may, however, quote the views of Clark Foreman, the author of "The New Internationalism" as suggestive of what the future has in store.

After demonstrating how the capitalist and socialist internationalism has failed owing to a glaring discrepancy between their basic assumptions and the realities of life, he points out that government regulation of the economic life of a country is becoming increasingly necessary, and goes on to say:—"It not only tends to grow cumulatively in each country and to bring about national planning, but also to force other countries to the same course. National planning in countries which trade with each other causes a new kind of trade—inter-governmental trade. These features form, therefore, the necessary economic basis for a new system of internationalism. . . . We need not predict that the new system will completely supplant the old. Capital internationalism dominated the world without being completely practised. The new internationalism will obviously exist for some time side by side with the dying remains of the others. Before the new system is accepted universally still another new

system may be taking its place. For the next few generations, however, an internationalism based on national planned economy and inter-governmental trade seems definitely scheduled."

The economist has to take the world as it moves, watch its internal developments and make his theory conform to the realities of life.

## A NOTE ON THE THEORY OF INTERNATIONAL TRADE

BY

PROF. S. R. BOSE, M.A., B.Sc. (ECON.—LONDON),  
*Patna College, Patna.*

At a time when the ideal of national self-sufficiency is being carried to extravagant excesses, and when foreign trade is being cribbed, cabined and confined within the narrowest possible limits by the high tariff walls which even the smallest countries are raising round themselves, no apology is needed for an examination of the foundations of international trade. For the economical production of any article we require a judicious combination of the proper kinds and right proportions of the different materials and factors of production, such as raw materials, climate, various kinds of labour, plentiful supply of capital, enterprise or readiness to undertake risks, and favourable legal framework of society. The conditions and materials for the efficient production of different articles are different. A country which happily possesses all the materials and conditions necessary for the production of all the articles which its citizens require, will have gone a long way in solving the problem of poverty. If every part of the earth's surface were equally richly (or poorly) supplied with all the facilities for the production of very desirable articles, there would be no necessity for inter-regional trade, though exchange between different individuals in the same region would be indispensable as soon as there comes to be specialisation of functions and division of labour. But the actual state of affairs is far from this imaginary assumption. We have very often to bring together the various agents of production from great distances and at considerable cost in order to set up a productive machinery of the

highest possible efficiency. Where such is the case, mobility of the agents assumes the highest importance. If by a miracle all the agencies of production, inclusive of the natural resources, become perfectly mobile, so that they can be transported to and assembled at any place for the mere willing, then transportation agencies and costs would cease to trouble us, production (and hence, consumption) would possibly tend to concentrate within a compact area, and the resources in men and materials ordinarily engaged in the transport industry, but now set free, would be devoted to the production of more articles (and services), and the human race would be richer to that extent. But this again, is a consummation though devoutly to be wished, is hardly realised. Natural resources like rich mines, fertile soil, bracing climate, sunshine, rainfall, etc., are fixed to certain localities, and cannot be moved about either at will or at any cost. But even this immobility of natural resources would not be a great impediment to the efficiency of production, if the other agencies are perfectly mobile, and they can be moved to the natural resources to combine with them, if natural resources cannot be moved to them. The ideal combination of productive resources is still secured, though as now the different parts of the earth's surface specialise in the production of different commodities according to their different natural aptitudes, inter-regional trade would now come to exist, and a part of the productive resources would be devoted to supplying transportation facilities for bringing about a distribution of the finished goods among different localities after they have been produced at different centres. Non-transportable goods have, of course, to be produced in the locality where they are consumed. Any reduction of the cost of transport would promote specialisation, for the agencies of production hardly possess mobility of the ideal degree, but can only be moved at a cost, and therefore a cheapening of transportation costs increases the volume of trade in finished goods. This increase is aided by the fact that productive agencies set free from the provision of transport facilities, would now be devoted to increase the volume of finished goods. But this sort of

territorial specialisation and regional exchange would not give rise to the problems of international values as developed by the English Classical School. Its problems may be assimilated to the problems of exchange value in internal trade. If different localities differ in natural resources, the comparative costs of producing any two commodities at one locality may differ from the comparative costs of producing the same commodities at at any other locality, even if the other agencies (other than natural resources) are perfectly mobile, and provided different units of the same agency have the same productive efficiency. But this difference in comparative costs would not lead to the theory of international trade of the Classical writers. It would either lead to each locality producing only that commodity which it can produce at the cheapest absolute cost, and then exchanging the goods at their costs of production; or one locality, where the costs of production of both the articles are higher in the absolute sense, giving up production altogether and thus being deserted entirely in favour of the more productive locality.

Let us now assume that besides natural resources, which are fixed to particular localities and are immobile, another productive factor, say labour, is fixed and immobile, while other agents such as capital, enterprise, etc., are mobile. Now the cost of producing different commodities at different localities will differ, if natural resources of different localities vary, or if labour (which has been supposed to be fixed, though mobile between different employments in the same locality) vary in inherent efficiency from locality to locality, or if both natural resources and labour vary in quality from place to place. Natural or inherent efficiency of labour is here taken to mean the efficiency which is not due to the influence of other factors, such as natural resources (like climate) or State activity (like compulsory education, unemployment and sickness insurance, municipal housing schemes, prevention of food adulteration, etc.). A difficulty here emerges. The ideal combination of productive resources for the most efficient production of commodities no longer becomes possible. A highly efficient labour force may

be associated, at one locality, with very poor natural resources without any possibility of separation or *vice versa*, or a locality might find itself with a combination of inefficient labour and poor natural resources. Yet the poor locality cannot be deserted altogether in favour of a better locality, as labour has been assumed to be immobile. The world production of wealth, under such assumptions, would be much less than if mobility of productive factors could be assumed. The remuneration of the factors which are still mobile, like capital, enterprise, etc., will tend to be the same in every part of the world, provided different units of the same factor are equally efficient in the same as well as different occupations. But immobile factors will tend to be remunerated in each locality according to their efficiency in production in the different localities, though specialisation and exchange of products will reduce their handicap to some extent. Production, however, may be less efficient all-round, *i.e.*, in the case of all the different commodities, in one locality than in another, or it may be less efficient in some kind of production and more efficient in others, or again, much more inefficient in some kind of production than in others. Inefficiency of production may be due either to inherent inefficiency in the labour factor or poverty in the natural resources factor. Inefficiency of production which is due to deficiency of natural resources but not to labour (which may have the same inherent efficiency in different localities) will, in the event of mobility of labour, simply lead to such unproductive localities being abandoned altogether and production confined to favourable localities only. Mobile labour will then tend to be paid for at the same rate in all localities. But if labour, though inherently equally efficient in all localities, is immobile, it will have to suffer for the deficiency of natural resources, as such locality cannot now be abandoned, unless labour is to be starved to death. Labour, if it cares to stick to inhospitable localities, must pay the penalty in the lowering of its remuneration below what equally efficient labour earns elsewhere; though here again specialisation and trade will somewhat improve its lot. Where, however, the inefficiency of

production is due not to defects in natural resources but to inherently inefficient labour, it must suffer for its fault, whether labour is mobile or not. A skilful worker gets higher wages than a clumsy worker even with perfect mobility. The condition of the inefficient worker becomes worse if, on the top of this, he is pinned to a locality which is inhospitable. The Classical theory of international values depends not so much on immobility of productive resources as on differences in the efficiency of production between one locality and another. Immobility is of no account if the efficiency of production in different localities is the same; while even with perfect mobility, if two workers differ in efficiency in different occupations, the one excelling, say, in pen-knife making and the other in pencil making (the differences not being due to mere specialisation of functions), the theory of international values would be applicable in determining the rate at which pencils would exchange for pen-knives. This led J. E. Cairnes to formulate the conception of non-competing groups and lay down that exchange between these groups would be effected in accordance with the theory of international trade.

Taking up now the case of differences in efficiency of production between different localities, if one locality is more efficient than another in one occupation (either due to the quality of its natural resources or to the quality of its labour—any one of the two immobile factors) and less efficient than it in another, then it is evidently best in the interests of all, that each locality should confine itself only to that occupation in which it is most efficient, and then acquire the products of the other occupations, to the extent to which they are transportable, by means of exchange. With immobility of some or all the factors and with differences in the efficiency of production in different localities, the world will be poorer if international trade were ruled out, and each locality had to devote itself to the production of all the necessary articles. The opening of international trade reduces, to some extent, the evil effects of the immobility of factors. With perfect mobility, however, the amount of wealth produced will be

the greatest. An apparently similar case may arise, even with perfect mobility of labour, if natural resources are uneven, as when Bengal specialises in the production of jute and Bombay in the production of cotton, free movement of labour between Bengal and Bombay being assumed. But the cases are not exactly similar and the consequences are also different. In determining the ratio of exchange between the two localities, when labour is mobile, no question of comparative costs (in the Classical sense) arises; while, with labour immobile, the ratio of exchange is determined by reciprocal demand operating within the limits set by comparative costs in the two countries. This is because, with labour mobile, the cost of producing cotton in Bengal and of jute in Bombay is of no importance. Bengal labourers, if they want to produce cotton, will migrate to Bombay (where cotton can be produced most efficiently), and similarly for Bombay labourers. The two different costs of producing the same commodity in the two regions will merge into one for each commodity, with mobility of labour (as also of the other factors except natural resources), and demand and cost determine exchange values, instead of demand operating within the comparative costs, as in the theory of international exchange, where factors are immobile. In internal trade (with factors mobile) articles exchange for their costs of production, and the gain of each party from the exchange is the same; otherwise there is the possibility of labour leaving an occupation where the gain of exchange is small for an occupation (in a different locality) where the gain is greater. This is, of course, on the assumption that all labour is inherently equally efficient, and capable of changing from occupation to occupation without loss of efficiency. But in international trade (with factors immobile) the gain of each party from the exchange need not be the same, as the possibility of change of locality in order to secure the advantages of a different occupation followed in that locality, is ruled out by hypothesis.

Continuing our assumption of immobility of labour and natural resources and differences in the efficiency of production in different

localities, if we now assume that one locality is less efficient than another all-round, though much less inefficient in the production of one article than in another, then it would, under the circumstances, be best for all concerned that the locality should confine itself to the production of that article in which its inefficiency is the least pronounced, and procure the other articles it requires by exchange from the more favoured localities. Here also the gain to both sides would be greater, with immobility of factors and free movement of goods (trade), than what it would be if factors were immobile and, at the same time, foreign trade was ruled out. The gain from mobility and exchange would, however, be the greatest, when the inefficiency of production is due to poverty of resources in a particular locality, as that locality would tend to be deserted and production concentrated in favourable localities, there being no insufficiency of them. But if the inefficiency is due to the poor quality of labour in a particular locality, mobility would not be of much avail, and such labourers would tend to get lower remuneration everywhere. This is due to the fact that, with or without mobility, inefficient labourers cannot be entirely withdrawn from production and left to die out, as in the case of natural resources, and production carried on only with efficient labour, of which there should not be an insufficiency. It must be noted, however, that whether the inefficiency be due to poor natural resources, or inherent inefficiency of labour, with labour and natural resources immobile, both the factors will tend to get lower remuneration in the inefficient locality than in the efficient locality. This case, in international trade, may be said to correspond to the case, in internal exchange, of Mr. Winston Churchill being a better political leader as well as a greater adept in the culinary art than the cook employed by him. It would have been better for the world if there were more Churchills and less cooks of the type employed by him. In that event some Churchills could have taken to political leadership and other Churchills to cooking. But as it is, the cooks cannot be left to starve, and it is good for all concerned that Mr. Churchill confines himself to the task of political leader-

ship, in which he perhaps excels his cook to an even greater degree than in cooking, and leave the cook to cook his food for him. The exchange of services is mutually beneficial to Mr. Churchill and his cook.

Still continuing our assumption of immobility of labour and natural resources, if we now assume that production in one locality is less efficient all-round, and to an equal degree in the different fields of production, than in another locality, no international trade takes place in the absence of differences in the comparative costs of production. If the inefficiency is due to poor natural resources, and if labour is mobile, then such a locality will be avoided. But if labour is immobile, then the remuneration of both labour and (owners of) natural resources will tend to be lower than in other localities. If, however, the inefficiency inheres in labour, then whether labour is mobile or not, it will receive lower remuneration than more efficient labour. In internal trade such inefficient labour has not much to choose between different occupations; wherever they are employed they earn in proportion to their efficiency.

In the above discussion we have kept out of view the possibility of the most efficient agencies of production in one locality proving insufficient to supply, besides its own needs, the needs of the other locality with which it establishes trade relations, in respect of the commodity it concentrates production on; or the possibility of the operation of the laws of diminishing or increasing returns in production. Mainly as a result of these conditions we sometimes find a country both producing and importing the same commodity at the same time. Nor have we considered the possibility of different units of the same factor of production having different productive efficiencies in the same locality. Further all finished commodities have been assumed to be transportable. We have neglected the effects of the cost of transportation on the ratio of exchange, and have considered only two localities and two commodities. No account has been taken of the fact that the supply of productive resources in a particular locality, or in the

world as a whole, is not rigidly fixed, but is likely to increase as the terms at which it can exchange its services for those of others, become favourable to it. The removal of the above limitations will complicate the problem and modify our conclusions in important respects; but we cannot enter into the discussion here.

So far only labour has been supposed to be immobile besides natural resources. The arguments advanced above, however, hold equally good if, instead of labour, either capital or enterprise or any other agency were supposed to be immobile. From this we may pass on to the case where still more of the factors or possibly all the factors are immobile. Suppose, for example, that besides labour and natural resources, enterprising ability also is immobile. If there is inefficiency of production in a particular locality due to the poverty of either natural resources or labour and if the locality cannot be deserted, *i.e.*, if the owners of poor natural resources are not prepared to give up their holding and migrate to richer localities, or if inefficient labour cannot altogether be abstracted from production and left to perish (its place being taken by efficient labour of which there is no insufficiency), then in order to be able to produce at all, the other mobile factors have to be attracted to the locality. If enterprising ability is inherently equally efficient everywhere, and if it is also mobile, then it must receive the same remuneration everywhere, and inefficient localities must part with a large proportion of their low yield in order to attract enterprise (as also other mobile factors) to the locality. But if enterprise, too, is immobile, then though inherently efficient, its field of profitable employment is limited to the poor locality, and the distribution of the low yield of the locality is now altered to the favour of the factors which are inefficient, *viz.*, labour and/or natural resources. If we now assume enterprise to be inefficient but mobile, it will tend to be paid in the poor locality at the same rate at which such inefficient enterprise would have been paid, in competition with efficient enterprise, in rich localities; but if enterprise, besides being inefficient, were also immobile, then it would probably receive lower remuneration in the poor

locality than it would have received in the event of mobility, as its marginal productivity here is less than at the rich locality. Immobility on the part of a factor, if it has to work with other factors, some or all of which are inefficient, alters the distribution of the product against it and to the favour of the other factors. We also note that factor-immobility, where the factors cannot be abandoned altogether, has no effect on the total volume of production in the world, but merely alters its distribution, provided the proportions in which the factors can be combined for production are rigid and unalterable. Where this assumption is not tenable, the conclusion has got to be modified.

The case of immobility of all the factors of production, provided that some or all the agents differ in productive efficiency as between one locality and another, does not present any special difficulty. If none of the factors can be abandoned altogether, the best we can do is to set them at tasks in which they have the greatest relative efficiency, or the least relative inefficiency, and then exchange the products between the different localities. In the presence of inefficiency of factors as between different localities, mobility would not increase the total output, but we can reduce the results of inefficiency by specialising the activities of the factors and moving the products. It is for this reason that even in internal trade, where different units of the same agent differ in efficiency, perfect competition between the different units and hence, perfect mobility is lacking; and in spite of the assumption of the so-called factor-mobility in internal trade, the conditions of exchange approximate to the conditions of international trade were factor-mobility is assumed to be absent. This consideration bridging the gulf between the theory of internal trade and the theory of international trade has escaped the notice of writers, because the orthodox theory of distribution is based upon the assumption that the different units of a particular agent have the same efficiency in production except possibly in the case of land. The consideration adduced above would, in the opinion of some economists, knock the bottom out of the Classical theory of

international trade. Further it might be urged that mobility and immobility are only comparative conceptions. Ideal mobility or mobility without cost is not to be looked for in real life. Agents and products can only be moved at a cost. Where the rewards of movement are great and the cost of movement small, the probability is that the costs would be overcome, movements would be made, and mobility of a sort established. Where, on the other hand, the rewards of movement are small and the costs great, movements do not take place and factor-mobility is said to be absent. Even between the different parts of the same country such as India, unless they expect to earn very high incomes, Punjabi labourers would not migrate to the Assam tea-gardens, specially if it means a complete rupture with their environments: while even a small increase in prospects might succeed in moving United States of America labourers across the border to Canada. Costs of movement, both inter-provincial and international, are possibly less in the case of capital and enterprise than in the case of labour. In real life the line of demarcation between internal and international trade, if it exists at all, can hardly be sharply drawn. None the less, the theory of international trade, as developed by the Classical writers, may be made to serve useful purpose equally in the domain of international and internal trade.

## IS INDIA OVERPOPULATED ?

BY

H. SINHA,

*Lecturer, Calcutta University.*

### SUMMARY

The paper discusses the validity of some of the tests usually applied for determining overpopulation, and describes some practical devices for judging whether there has been any departure from the optimum with reference to which alone overpopulation or underpopulation can have any meaning. Some relevant statistics of real income per head are quoted in this connection. It is pointed out that fuller data are necessary in order to give a definite answer to the question whether India is overpopulated or not.

The normal decennial rate of increase of population in India was estimated to vary between 7 and 8 per cent by Mr. J. T. Marten, the Census Commissioner for the 1921 census. It was believed at the time that on account of the influenza epidemic causing heavy mortality specially among persons of reproductive age, the increase of population during the years 1921—31 would be less than normal. The present census, however, reveals an actual increase of 10·6 per cent. The vexed question whether India is overpopulated or not has therefore once again come into prominence.

One can speak of overpopulation and underpopulation in a country only with reference to some optimum. For non-human organisms, "when a certain density is reached, fertility begins to diminish, although there is not yet any lack of food, nor any difficulty in getting at it."<sup>1</sup> Any extension of this principle to

<sup>1</sup> Raymond Pearl's "Biology of Population Growth" referred to in *Annals of the American Academy of Political and Social Science*, Vol. 162, July, 1932.

human populations so as to set up a "biological optimum" does not however seem to be valid.

Rather we should speak in terms of an economic optimum, which ensures the maximum economic welfare for the population such that any deviation from that population, whether an increase or a decrease, results in less economic welfare. This concept also is not free from difficulties. It cannot furnish a stable basis for reference. It must vary from country to country. Even within the same country it must vary from year to year. A more fundamental objection is that economic welfare is a composite of many items in varying proportions. Its definition is far more delatable than, say, that of the index number of prices. In a vast heterogeneous country like India it is difficult to visualise what exactly would amount to maximum economic welfare for the country as a whole in a given situation.

In any case, even if we have a compact and homogeneous group of people with a standard of living which is not subject to wide fluctuations *inter se*, the difficulty still remains, *viz.*, whether we think in terms of individual welfare or in terms of social welfare. In other words, do we desire to have a small number of very happy people? Or do we think it desirable "for everyone to have the chance of living for whom life could be in any sense worth while?"<sup>2</sup> There are other similar difficulties. In fact, this concept is probably another "empty hat box."

We should therefore think of some practical devices for testing whether economic welfare has in fact been impaired along with the undoubted increase in population, revealing want of balance between the output of goods and services and the number of persons enjoying them. These devices may be direct or indirect. To take up the latter category first, we may, following Dr. Drysdale, argue that if we find the average expectation of life at

<sup>2</sup> For a critical discussion of the optimum concept of population, see Lindley M. Fraser's article in *Population*, February, 1934. He comes to the conclusion that this concept should find no place in a discussion on theoretical economics.

different ages steadily declining in a country, we may infer pressure of population there. The Actuarial Report attached to the present census in India (on pages 165-6) shows that the average<sup>3</sup> expectation of male lives has improved during the last decade for all ages. Female lives also show some improvement. Can we safely infer from this that India is not overpopulated? Should we forget the fact that influenza exacted a heavy toll in 1921, from which there must be a natural recovery, apart from any other cause? In any case, so much leeway has to be made up in matters of sanitation, public health, etc., in India that any improvement in the expectation of life (supposed to be equally distributed in different economic strata among different communities—a large, perhaps a gratuitous assumption) does not necessarily mean greater economic welfare as in western countries.

Other indirect tests such as those suggested in a recent article in the *Economic Journal*<sup>4</sup> need not detain us long. The fact that the increase of population during the period 1871—1931 was least in India among all the countries of the world, except France, cannot prove that India is not overpopulated. For it may be argued with equal force that the pressure of population here was already so intense that further growth was necessarily slow. Nor can the fact that the average density of population in India is lower than in other countries disprove overpopulation, for economic pressure may exist in any degree of density; as shown by Dr. Harold Mann in his *Village Studies*. Any influence based on the available food supply has been rightly condemned by Mr. Shirras in his article in the *Economic Journal*. But, strangely enough, he himself quotes statistics of the acreage and outturn of crops in support of his contention. He goes further and points

<sup>3</sup> In common with other all-India averages, it suffers from the defect that the constituent items are widely dissimilar. The Actuarial Report for the 1931 census stressed this point. The present report does not give expectation of life figures separately according to incomes or any other economic attributes.

<sup>4</sup> *The Population Problem in India*, by Mr. G. Findlay Shirras in *Economic Journal*, March, 1933.

out that "there are in India no limits to agricultural improvement with the advance of science," as if the population of to-day will live on the goods and services to be produced at some distant future date. Possibly the figures for unculturable wastes other than fallows should show a steady decline if there is really some pressure of agricultural population. They do not however throw any light on the matter on account of the nature of such data.<sup>5</sup>

A direct and a more satisfactory test for overpopulation is to find out whether population is outstripping the output of goods and services. If it is, the real income per head should decline. In the table appended to this paper will be found various estimates of nominal income per head made from time to time by officials and non-officials. As no satisfactory index for the purchasing power of the rupee is available, nominal incomes have had to be reduced into real incomes by the Department of Statistics General Index Number, which has at least the merit of continuity. In his *Science of Public Finance*, Mr. Shirras explained why the method hitherto adopted for estimating national income had been discarded by him. But his new method is also seriously in error. Thus in calculating agricultural incomes he has taken average wholesale prices and not harvest prices actually obtained by cultivators, which are sometimes less by nearly 25 per cent, as estimated by the Agricultural Commission. He has included transport and other charges separately in connection with non-agricultural incomes. Such double counting has inflated the income per head according to his much vaunted new method, whereas his "old method" figure for 1921, of Rs. 72 is substantially in agreement with Messrs. Shah and Khambata's independent estimate for 1921-22 of Rs. 74. Unfortunately Mr. Shirras does not state the method of compilation of his table of the income per head in his article in the *Economic Journal*. Presuming that he has followed his new method, and further assuming that the corresponding figure of Rs. 80 for 1911

<sup>5</sup> See *Indian Agricultural Statistics*, by the present writer in J.R.S.S., Vol. XCVII, Part I, 1934, p. 156.

in his *Science of Public Finance* has not been revised, the real income for 1929-30 should be Rs. 63 ( $= 62 \times 273 \div 270$ ). On the other hand, if the 1921 figure of Rs. 107 stands as before in the present table, the income for 1929-30 should be Rs. 53 ( $= 45 \times 273 \div 230$ ). In either case, we arrive at the curious conclusion that real incomes rose rapidly during a period of depression in India, whereas in England and practically in every other country there were substantial declines.<sup>6</sup> In any case, leaving out the last figure, *viz.*, that for 1929-30, as being highly suspicious, and using the old method of compiling national income throughout, so as to eliminate the error due to the defect in the method as far as possible, we find that the real income has risen steadily from 1871 to 1911 with a slight setback in 1901 due to famine. This does not suggest any overpopulation. The drop in the figure for 1921 is partly due to the rapid rise in prices at the time just as the figure for 1930-31 must have been inflated due to the rapid fall in prices. For as is well known arithmetic averages are not so suitable as geometric averages where the individual prices are much dispersed as they must be during a period of severe fluctuations.<sup>7</sup> To sum up the data now available cannot give definite answer to the question whether India is now overpopulated or not; although it may be stated that India was not probably overpopulated during the period 1871 to 1911.

Another difficulty is that a mere increase in real income per head may not indicate economic prosperity for the country. Even if the real income per head remains the same but there is better distribution, there is greater economic welfare. We therefore require not only fuller census of production statistics for estimating national income but detailed family budgets for different communities in different parts of India to have some knowledge of the distribution of income and of the standard of living. And these for

<sup>6</sup> J.R.S.S., Vol. XCII, Part I, 1929.

<sup>7</sup> *Economic Journal*, June, 1928, p. 220. The test is whether price relatives or their logarithms fit a normal curve better.

a number of years to enable us to eliminate the effect of temporary trade cycles and to get at the underlying trend with which we have to correlate the population trend.

Lavoisier better known as a chemist than as an economist made an important contribution along with the famous mathematician Lagrange to a remarkable pamphlet<sup>8</sup> on "Political Arithmetic." He made a characteristic remark reminding all physiocrats that if full data were available, the whole science of political economy (as then understood) would be contained in a few pages, or rather the science would cease to exist, the problems being solved so easily that no disagreement could be possible.

In conclusion, the writer desires to place on record the valuable assistance received by him from Prof. J. C. Sinha, M.A., Ph.D., in writing this paper, although he alone is responsible for the opinions expressed here.

<sup>8</sup> Collection de divers ouvrages d'arithmetique politique par Lavoisier, Delagrange et autres, Paris an IV, quoted in Westergaard's *History of Statistics*.

## APPENDIX

## Incomes per head in India

Year.	Nominal income per head Rs.	Authority for the estimate.	Dept. of Statistics General Index No. (Base 1873 =100).	Real income per head at 1873 price level. Rs.
(1)	(2)	(3)	(4)	(5) = (2) $\times 100 \div 4$
1871	20	Based on Dadabhai Naoroji's estimate for 1867-8	93	22
1881	27	Financial Statement of 1882	96	28
1901	30	Lord Curzon's estimate	110	27
1911 (a)	50	Mr. Shirras in <i>Science of Public Finance</i> according to old method hitherto adopted	129	39
(b)	80	<i>Ibid.</i> , according to new method	129	(62)
1921 (a)	72	<i>Ibid.</i> , according to old method	236	31
(b)	107	<i>Ibid.</i> , according to new method	236	(45)
1929-30		Mr. Shirras in <i>Econ. Jour.</i> , March, 1933		(53 or 63) <sup>9</sup>

<sup>9</sup> According as the figure for 1911 or for 1921 compiled according to the new method and published in his *Science of Public Finance* stands unrevised for his article in *Economic Journal*. The writer has to confess sadly that he has been completely baffled by a similar table in his *Poverty and Kindred Problems*.

## SOME ASPECTS OF THE POPULATION PROBLEM IN SIND

(Based on the Census Report of 1931)

BY

H. C. MALKANI, M.A.,

*Chellasing and Sitaldas College, Shikarpur (Sind).*

Sind or the North-West Dry Area of the Bombay Presidency as it is called in the Census Report occupies an area of 46,378 square miles. In 1921, the area was recorded at 46,506 square miles, the loss of 128 miles in 1931 is attributed to the action of the river Indus. The population of Sind as recorded in the Census of 1931 is 3,887,070 as against 3,279,377 recorded in 1921 and 3,513,435 recorded in 1911. The population of Sind has increased by 607,693 from 1921 to 1931, though in the decade from 1911 to 1921 population decreased by 234,058 due to the epidemic of Influenza in 1918. In the decade (1921—1931) the population of Sind has increased by nearly 6 lakhs, which works out an increase percentage of 18.75. The high percentage of increase is noticeable in every district. This is explained by the fact that "in addition to the natural increase induced by the benevolence of the seasons during the decade under review, the insistent demand for labour for the Sukkur Barrage has resulted in an appreciable influx of persons particularly from Baluchistan and the Punjab; and the general stimulus to trade caused by the disbursement of considerable sums of money in the shape of wages, may reasonably be expected to have swelled the population in urban areas. Further there have been indications that on this occasion the Muslim element in the population has taken the Census more seriously than usual and Muhamadans throughout Sind have been at pains to render individual household returns accurately. In an area where the home is specially sacrosanct and in which the female members of a family are not generally accorded the freedom granted to the

womenkind of other castes the influence of this spirit of co-operation is not unlikely to have been effective." (*Census of India, 1931, Vol. VIII, Part 1.*)

### **Low Density.**

That Sind is sparsely populated is borne out by the Census of 1931. The density per square mile of total land area is 84 as against 309 in Gujarat. This is perhaps due to the fact that the percentage of cultivable area is small, *viz.*, 52 and of that the percentage of net cultivated area is smaller still, *viz.*, 31, whereas the corresponding figures for Gujarat are 81 and 68. The low density of the population in Sind is also seen from the fact that the number of houses per square mile is also small, *viz.*, 16. The urban population in Sind is small being only 699,307, though there is a tendency for urban population to increase.

### **Distribution of Population: Urban and Rural.**

All over the Bombay Presidency there is a tendency towards the decline of the smallest villages, and the growth of the larger villages. Only in Sind is the smallest village growing. This may be due to more efficient Census classification or it may actually express a real movement of population due to the fact that in Sind much of the population still prefers to live in small agglomerations under a headman of a particular caste. The clannishness of the Sindhi Mussalman and of many of the Baluchi tribes is very noticeable in certain parts. The big local Zamindar or "Waderoo" likes to be a king of his own little territory exercising often a sway that is completely feudal. In fact in modern Sind the Hindu village system has never really established itself; the striking difference between Sind and the rest of the Presidency is well brought out by the following figures. Taking the 1891 figures as basis at 100, the number of villages with a population of under 500 in 1931 was 99 in Gujarat, 93 in the Deccan, 98 in the Konkan, and 142 in Sind. But the increase in the number of inhabited villages in Sind has been progressive and must be due largely to better vegetation and general opening up of new land.

**Religious Distribution.**

As regards religious distribution of population, it will be found that in Sind the Hindus form the greater part of the town population despite the vast preponderance of Mussalmans in Sind as a whole. The Hindus in towns outnumber the Mussalmans by over 29 per cent though in rural areas the Mussalmans outnumber the Hindus three times. No greater contrast than this can be imagined. It shows that the Sind Hindu is mostly a town dweller and the Sind Musselman mostly a villager. This fact indeed raises administrative and political problems of some complexity. A study of the figures shows that for every 100 Mussalmans in towns there are 129 Hindus but for every 100 Mussalmans in villages there are only 25 Hindus. Only in Karachi does the urban Musselman population exceed the Hindu "probably because a large number of Makranis and other Mussulman *pardeshis* have made Karachi a centre of residence." In the Upper Sind Frontier the numbers are evenly balanced.

**Sex Distribution.**

As regards the distribution of population according to sex, we find that there is a paucity of women in Sind. Taking the cities or larger towns, we find that in Karachi there are 708 women to 1,000 men and the proportion in Hyderabad is 800, Shikarpur 852 and Sukkur 601. The difference between Karachi and Sukkur on the one side and Hyderabad and Shikarpur on the other appears to be due to the fact that it is Hyderabadi and Shikarpuris among Sindhis, who generally go out of Sind for purposes of trade leaving their womenfolk behind. Karachi and Sukkur have a large number of immigrant people who earn their livelihood there, leaving their wives behind. Paucity of females in Sind is more marked than in the rest of the Presidency. In none of the Sind districts are there more than 444 females for 1,000 of the population. It is indeed a strange fact brought out by the Census that the proportion of females has been steadily diminishing since 1881.

Now it is 439 in every 1,000 of the population. It is an admitted biological fact that there is a deficiency of females in India; it has also to be admitted that the sex statistics in India are puzzling and no fully adequate explanation of some of these puzzles has yet been found. But it is true to say that an unnoticed and capricious omission of women from the returns is a likely partial explanation of certain extraordinary features of the sex distribution. "In a Mussulman land like Sind" says the Census Superintendent "it is well known that female children are thought very little of and in some cases the parents would be unwilling to admit that they possessed an abnormal number of daughters." *A priori* therefore there exist strong reasons for thinking that the female population is somewhat underestimated, specially in the lower age groups and this would unduly depress the sex ratio and lead to a belief that there are more females in deficit than is really the case.

### **Age Distribution.**

The distribution of population according to age is another important question to be considered. Sundbarg, the Swedish statistician based his classification of populations into certain types on the distribution of population in three age groups 0 to 14, 15 to 49, 50 and over. A population was said to be progressive, if the proportions in the three groups were 40, 50 and 10 respectively: stationary if the proportions were 33, 50 and 17: regressive if the proportions were 20, 50 and 30. The Sundbarg formula has since been extended by Whipple to distinguish still further the types of population. In addition to the original progressive, regressive and stationary types which Sundbarg recognized two further types called secessive and accessive have been established. A population is said to be secessive if the proportions are 40, 40 and 20: and accessive if the proportions are 25, 60 and 15. Judged according to the Sundbarg formula Sind districts appear to be inclined to be progressive or accessive according to the revised formula.

**Civil Condition.**

Civil condition means in fact marital condition. It does not mean the status of the individual under the civil law. Nor does it include social or economic status except indirectly in so far as these are dependent upon marital condition. In India with its rigid social customs marital condition may to a very large extent affect social and economic status.

The chief features of marital condition in India as compared with Western Europe are, according to the Census Report, (1) the universality of marriage, (2) the early age of marriage, and (3) the large proportion of widows. It has been pointed out in the former Census Reports that the universality of marriage in India is the normal thing and that it is Western Europe which is exceptional. Comparing civil condition by religion in the Presidency we find that Jains have 497 females per 10,000 married under 5 years of age, Hindus have 360. In the 5 to 10 years age-group Hindus have 2,498 females married, Jains 1,925, Christians 1,085, Muslims 985 and Zoroastrians 67. Between the ages of 10 and 15 Hindus have 4,613 females married, Jains 3,998, Muslims 2,637, Christians 1,756 and Zoroastrians 185. Thus it will appear that the Jains have the highest number of infant girls married and that both Hindus and Jains have very high figures for marriages of girls under the age of 15. There is no very great number of marriages of Muslim girls till the 10 to 15 years age-group is reached. It is not till the 15 to 20 years age-group is reached that Zoroastrians show more than one girl in ten married. In Sind the civil condition figures of the Hindu population approximate more to the Muslim figures than to Hindu figures elsewhere. Whether this is due to the Hindu social organization following in Sind, perhaps unconsciously, the practice of Muslim social organization cannot be said with any certainty. It is just as likely to be the result of intrinsic differences in this respect between the Sind Hindus and the Hindus of the rest of the Presidency.

Examining figures in detail, it will be seen that amongst males the proportion married under the age of 5 is highest (31 per mille)

in Gujarat and lowest (5 per mille) in Sind. The same is true of females married under 5. In the 5 to 10 years age-group for males Gujarat shows the highest figure 151 and Sind the lowest 31: for females the Deccan shows the highest figure 289, Gujarat being 279 and Sind again returns the lowest 83. Similar is the case for the 10 to 15 years age-group. It will thus be apparent that the areas where early marriage is most prevalent are the Deccan and Gujarat; Sind is where early marriage is least prevalent. In Sind early marriages even amongst the Hindus are comparatively few and in consonance with the condition prevailing in the Muslim community of Sind where child marriage is very rare and early marriage not very common. Amongst the Hindu population the advanced classes tend to have lower figures for early marriage than the rest. It is interesting to note that the immediate effect of the knowledge that the Sarda Act was passed, was that a considerable number of child marriages were performed specially among the uneducated classes of both Hindu and Muhamadan communities (*vide* extracts from the letters of Collectors published in the *Census Report*, Vol. VIII, Part 1).

#### **Occupation Statistics.**

The statistics of occupation in fact cover the whole economic field of employment in the community. Occupations are divided into four classes: (1) Production of raw materials, (2) Preparation and supply of material substances, (3) Public Administration and Liberal Arts, (4) Miscellaneous. The first class is again divided into two sub-classes—exploitation of animals and vegetation and exploitation of minerals. The second class is subdivided into industry, transport, and trade; the third into Public force, Public administration, Professions and Liberal Arts. The miscellaneous class includes persons living on their income, domestic service, insufficiently described occupations or unproductive.

#### **Occupational Distribution.**

The general occupational distribution may be considered from two points of view (a) the number of workers and non-workers

in the population, (b) the number of workers in the principal occupations followed. According to the Census Report, there were in Sind 1,197 thousand men and 59 thousand women earners; 54 thousand males and 86 thousand females working dependents and 930 thousand males and 1,561 thousand females non-working dependents and the rest 45 thousand males and 4 thousand females engaged in subsidiary occupations. Of the earners and working dependents 59 per cent (lowest in the Presidency) were engaged in the exploitation of Animals and Vegetation; 10 per cent engaged in Industry; 4 per cent in transport and 7 per cent (highest in the Presidency) in trade. The percentage engaged in unproductive occupations is highest in Sind. The reason for the high figure in Sind is apparently due to the large number of males enumerated as beggars and vagrants, being 12,175 out of 57,884 for the whole Presidency. This fact is also borne out by the small percentage of earners and working dependents to the total population which is only 19.5 being the lowest in the Presidency. The corresponding percentage for Northern Division is 30 and Central Division 26. The larger number of unproductive persons in Sind should really occasion cause for alarm. Out of every 1,000 of population in Sind only 323 are principal earners, 36 working dependents and 641 non-working dependents (highest in the Presidency). Examining by districts, the districts of Nawabshah, Hyderabad, Karachi and Larkana return a larger number of persons engaged in unproductive occupations. It is not quite clear why these districts should show so high an incidence of unproductive occupation. It is possible that this is due to the system of enumeration. But the matter is not certain.

#### Literacy.

The Census definition of literacy is not fully satisfactory. It is probable that there is a tendency in all the Census returns to overestimate the extent of literacy. Thus the child who is just passing time at school; or the adult who has lost all memory of what he learnt in the fourth standard will both be considered as literate.

But considering literacy figures at their face value, we find that Sind lags far behind other parts of the Presidency. Of particular areas, Bombay City with 267 per mille returned the highest figures for literacy and Sind of only 70 per mille. If the comparative figures of literacy per mille amongst males and females be considered for all ages Sind again holds the bottom. It is refreshing to note that there has been some progress in male literacy in Sind between 1921 and 1931 but female literacy, which is very backward, remains practically stationary.

#### **Conclusion.**

It has not been possible in this small paper to discuss at any great length any of the outstanding problems connected with the population of Sind. One has had to content himself with merely stating these problems rather than suggesting the solution of the same. The increase of population in itself raises important problems. Firstly, there is the problem of pressure of population on agriculture as a source of livelihood. In Sind, the decade under Report has seen the inauguration of the Lloyd Barrage at Sukkur but, as the Census Superintendent points out, "the full benefits of that great and beneficent work cannot be expected to be reached for many years to come as the land served by the new canals is developed gradually and a population capable of working the land efficiently and to the best advantage is trained up." Secondly, the attack on illiteracy alone must be greatly impeded if population outruns the capacity of education. In a province like Sind with such a large agricultural Muslim population, amongst some of whom like the Baluchis and hill tribesmen learning is still regarded as unmanly, the problem of education becomes indeed a formidable one.

## A NOTE ON THE IMMIGRANT POPULATION IN BENGAL

BY

S. V. AYYAR,

*The University of Dacca.*

During the last decade there has been some evidence of provincial feeling in many provinces largely as a result of political or other pressure on the Ministers in the transferred departments. In some cases it may be possible to find some justification for the use of such a feeling, but there is no doubt that the development of Provincialism may be a source of weakness in the building up of an Indian Nationalism—economic or political. Even in such a sober document as the Census of India, Mr. Porter writes:—

“ The cry ‘ Bengal for the Bengalees ’ may be expected in antiphony to the similar protests raised in other provinces against the Bengalees.” (*Census of India*, Vol. V, Bengal Report, p. 91.)

We cannot condemn this feeling without examination and it is the purpose of this paper to consider whether the composition of Bengal’s population does not justify the Government and people of Bengal in taking such action as in their view may be desirable for the economic progress of Bengal. The Bengal Government have recognised the need for expert and non-official advice on economic matters by the appointment of a Board of Economic Inquiry last year. If economic conditions warrant any action, mere academic political sophisms need not stand in the way, for, there is no doubt that economic pressure will sweep everything before it. Even the Joint Select Committee on Indian Constitutional Reforms write in their Report (1934), p. 255:—

“ Burma must have the right of withholding from Indian British subjects the unrestricted entry into Burma after the Separation, and the Government and Legislature of Burma may

regulate the influx of cheap labour in competition with the indigenous sources of supply."

It is only fair that this principle may also be recognised in the case of the autonomous provinces in the future Constitution of India. Apart from its political implications on Indian citizenship, the only question which must be examined is whether the population of Bengal native to the soil is threatened in a serious degree by the immigrant population from other provinces of India.

The figures given below indicate some very interesting facts:

Total Population of Bengal.	Total Immigrants.	From contiguous Provinces.	Others.
51,087,338	1,726,370	1,213,936	512,434
(Bengal, British and State territory and Sikkim)			
34 per 1000			

A further study indicates that the immigrant population is as much as 30 per cent in Calcutta, Howrah and Darjeeling. In Jalpaiguri it is 20 per cent.

SUBSIDIARY TABLE IV, P. 106, BENGAL CENSUS 1931, REPORT.  
POPULATION BORN OUTSIDE BENGAL

	1931	1921	1911	1901	1891	1881
Bengal	1,853,708	1,929,640	1,970,778	1,445,724	1,120,242	883,595
Calcutta	397,326	328,287	356,693	299,111	230,183	142,653
Howrah	137,514	129,186	109,304	51,479	46,345	29,280
Jalpaiguri	211,207	219,911	207,600	138,734	86,100	57,843
Darjeeling	100,700	101,807	111,269	115,729	130,773	74,483
Midnapore	64,285	47,027	48,572	27,132	21,224	29,315

FROM SUBSIDIARY TABLE, P. 107, BENGAL CENSUS, 1931.

	Total Pop.	All other parts.	Bihar and Orissa.	Madras.	C.P.	U.P.	Punjab.	Assam
Calcuta	1,196,734	380,428	224,751	5,304	3,026	103,278	12,703	4,819
	per 10,000	3.179	1.878	44	25	863	106	41
Howrah	224,873	78,564	33,362	2,661	794	38,944	797	102
	per 10,000	3.494	1.484	118	35	1,732	36	5
Khargpur	54,284	35,498	6,745	11,752	8,602	5,512	1,756	11
	per 10,000	6,539	1.243	2,165	1,584	1,015	323	2

Dr. Krishna Benode Saha in his Book on "Economics of Rural Bengal," p. 281, writes:

"The largest number of immigrants comes from Bihar and Orissa and the United Provinces. But those who come from these provinces are generally employed as labourers, coolies, durwans, domestic servants, and do not compete with the middle classes. For the same reason, the immigration from Nepal, Assam, and C. P. is not important for our purpose. Most of the immigrants from Rajputana and Bombay, and a considerable part of those who come from the Punjab and Delhi are men of the mercantile classes who come here (Bengal) for trade. A large proportion of those who come from Madras is employed in the Railways and Mercantile offices and therefore competes with the middle-class men in Bengal."

Dr. Saha considers that the indigenous middle-class population is to a certain degree put in a difficult position by the competition of the Marwari trader and the Madrasee clerk, but as he is not concerned with unemployment in the wider sense, he leaves the other immigrants alone. More than a million immigrants get absorbed in Bengal as labourers, coolies, durwans, domestic

servants! After all, these occupations are not beyond the intelligence or the endurance of the Bengalee—Hindu or Moslem.

It has been calculated that the average of remittances per year by money order alone to the province of Bihar and Orissa is in the neighbourhood of 8 crores of Rupees and most of it comes from Bengal. It appears to me that if the Bengalee worker takes kindly to hard manual work, this one million of the immigrant population can in a considerable degree be discouraged. Bengal is one of the few provinces that seem to have left the other provinces to do the heavy or dirty work for them.

It is, however, encouraging to see from the figures supplied by Porter (in the *Census of India*, Vol. V, Bengal, pp. 91 and 92) that the *net* access of members to Bengal has in the case of a number of provinces declined during the last decade except in the case of the Punjab and possibly Madras. The number of persons born outside Bengal is 75,932 less than at the census of 1921.

	1911	1921	1931
Bihar and Orissa	1,086,987	1,110,657	981,326
U.P.	379,877	324,461	317,449
C.P.	15,179	51,536	38,898
Punjab	14,557	12,654	20,466

#### MADRASI IMMIGRATION TO BENGAL

1911	1921	1931
14,000	32,000	42,520

But Bengal, while it has sustained a very large immigrant population is also active in sending out its people to other parts of India.

NUMBER OF PERSONS BORN IN BENGAL, BUT FOUND IN OTHER  
PARTS OF INDIA

[000 omitted.]

	1911	1921	1931
Bihar and Orissa	165	117	157
U.P.	26	19	30
Assam	194	376	575
C.P.	6	3	7
Rajputana	1	1	1
Madras	7	3	— not available.
Punjab	4	6	5
Bombay	7	8	6
Burma	136	146	158

[It is interesting to note from the figures that the Bengalee migration to Madras has decreased, but the Madrasee movement to Bengal has shown a very steady increase.]

After all, economic pressure is a matter of vital importance in any area, and it is the proportion which the excess of immigrants over emigrants bears to the total number of persons in each area which must be seriously considered. Although the excess of immigration has been reduced from 1,243,283 the figure of 1921, it still stands at 897,171 in 1931. The Calcutta census report indicates that there are actually more than 66 thousand immigrants in excess of those of 1911 and that the immigrants from Nepal have almost doubled themselves in Calcutta and the suburbs during the last decade.

There are other aspects of the migration from other provinces which Bengal must consider. The sex proportion of the immigrants is an important factor in estimating the desirability or

otherwise of an immigrant population. For every thousand males, Madras sends 579 females and Bombay 512.—The immigrant from Bihar and Orissa leaves his women folk behind and the proportion is as low as 168 to 1000. Punjab sends 260, U.P. 284, and the Rajputana Agency 331 for every 1000 males. A study of these figures must make any sociologist ponder over the problem presented, and the net effect on Bengal's health and morals by the great disparity in sex ratios in the immigrant population must be estimated by competent authorities by a careful investigation. The population problem is not only a question of numbers but also one of quality, and Bengal has just cause to complain of the nature of the immigrant population from some of the Provinces in India.

Marwari immigration into Bengal has riveted the attention of the Bengalee middle classes in no small degree, but the Marwari is not a phenomenon peculiar to Bengal. There is no part of India to which the Rajputana Agency does not give more than it receives in the matter of the numbers of her population. But the *Census of India*, Vol. XXVII, 1931, reports that the Marwari immigration into Bengal has also shown signs of decrease in the Census of 1931.

#### MARWARIS IN BENGAL.

1921	1931
49,091	31,899

The prejudice against Marwaris, and its consequent effect on the census in Bengal is indicated in some degree by the following statement in page 2, of the *Census of India*, Calcutta 1931, Parts 1 and 2:—

“ Omissions in Wards 5 and 7 where Marwaris form a considerable part of the population were due to the intransigence of the Marwari community and the Guzerati traders, who are *not native* to Bengal, but reside here for purposes of trade, and paid the city from which as immigrants they *extract* their material

prosperity, the delicate compliment of declining to be enumerated amongst its population."

Throughout Bengal, says Mr. Hutton, there seems to have been a general rise in the standard of living, *not showing in an improved or more expensive diet*, but in minor amenities such as umbrellas and shoes, shirts and coats, now worn by thousands who would never have dreamt of wearing them ten years ago (p. 14, *Census Report, India, Bengal, Vol. V*). With a false standard of living, there develops a false prestige, and the competition, with persons from other provinces who are content to have a lower standard becomes inevitable, and this seems to have been the real basis of the nature of the immigration into Bengal. Mr. Yeats, I.C.S., Superintendent of the Madras Census operations, writes in page 82, *Census of India, Report Vol. XIV, 1931* as follows about the Madrassée worker in Burma:—

"He fulfils a wide variety of functions. He tills the paddy fields, he mans the Railways. He handles the cargoes in Rangoon. He functions largely in domestic service, and clerical employment claims him. There is nothing to which he cannot put his hand with acceptance."\*

A fair tribute to the capacity for work of the emigrant from Madras! But also a grave warning to every province to be up and doing, so that the native of the soil can also learn the lessons of hard work and self-reliance. It is a sad commentary on the adaptability of the Bengalee that a number of occupations should be left in a considerable degree to the immigrant population. It is idle and unfair to consider all immigrants as mere intruders in the province and there is ample evidence that the immigrant in Bengal has taken up largely only such kinds of work as were not taken up efficiently or adequately by the children of the soil of Bengal during the last few decades.

\* If for the Madrassée worker, we substitute the immigrant into Bengal, Mr. Yeat's description would fit in fairly as an estimate of the immigrant's contribution to Bengal.

Bengal is not, after all, the only province that has attracted a large immigrant population. The figures given below would indicate that Bombay is no less charitable.

#### IMMIGRATION INTO BOMBAY PRESIDENCY

	1921	1931
Madras	44,039	58,762*
Bengal		42,437
Punjab	33,834	89,437
U.P.	112,466	135,217
C.P.	30,756	54,375
Hyderabad	206,842	161,667

Messrs. Dracup and Sorley, in their Report page 73 (*Census of India*, Bombay, Vol. VIII) report that the balance in regard to inter-provincial movements is in favour of Bombay. Those born in the Bombay Presidency and enumerated in the rest of India were only 592,060. But the number enumerated in Bombay Presidency, and born outside its limits was 1,185,957, giving a net surplus of immigrants of 593,897 compared with the surplus of 897,171 for Bengal.

It will be seen from the above survey that the question of immigration of persons from other provinces in India into Bengal has not yet assumed such dangerous proportions as to be a menace to the Bengali population,, for the Bengalee has shown a very considerable capacity to migrate to provinces like Assam and Burma, as well as to a number of provinces in Upper India. It is difficult to estimate the net loss or gain by this movement of the Bengalee population to other Provinces, but, except in regard to Assam and in a smaller degree to Burma, the Bengalee migration to other provinces has been predominantly for

\* There are 21 thousand in Bombay City alone..

work of a type which requires education and training in some degree. And it may be that if we take a census of the moneys sent out and sent in, Bengal may not be found to be a loser in any serious degree.

It will appear, therefore, that there is no serious menace yet to the indigenous population of Bengal, and it is up to the people of the province to discourage unnecessary immigration by taking up the work which the immigrant does, at a wage not more than, and with an efficiency not less than, that of the immigrant. Bengal will also do well to encourage migration to many labour centres, as for example, the Malay Straits, and Ceylon. The immigration into Bengal has been in many cases inevitable, but there can be no doubt that a new orientation in regard to the Bengalee worker as regards work, wages, and discipline may go a very considerable way to discourage in a growing degree unskilled labour of sorts and help to reduce still further the balance of immigration into Bengal. But if subsequent events prove any definite policy on the part of other provinces to discourage the Bengalee immigrant it will be the duty of Bengal to take such steps as may be found necessary by its Government and Legislature—legislative, administrative or otherwise—to see that the indigenous population has a fair chance at least within its own borders.

## POPULATION AND PRODUCTION (1920—31)<sup>1</sup>

BY

DR. P. J. THOMAS,

*Madras University.*

The increase of 10·5 per cent in the population of India between 1920 and 1930 has created considerable uneasiness in many quarters. The author of the Census Report, 1931, views it with alarm and this is shared by a large number of publicists. Mr. R. W. Brock, formerly the editor of *Capital*, made the following statement at a meeting of the East India Association in 1932:—‘So far as the official figures indicate there has certainly not been any increase in India’s agricultural and industrial production, in any way proportionate to the increase of her population, and the only possible inference appears to be that there has been a fall in the average income and therefore the average standard of living.’<sup>2</sup> This statement is startling, but fortunately, it is not borne out by facts, as I hope to show in this paper.

There is one serious difficulty in accurately estimating production in India. Not less than 70 per cent of the people are dependent on agriculture, but the available statistics of agricultural production are hardly reliable, as they are based on a faulty system of crop forecasts. The forecasts of crop outturn in India are based on (1) area under cultivation; (2) the standard of normal outturn per acre; and (3) the condition factor or the annavari estimate. The figures of area are supplied by the Revenue Department, and are fairly reliable except in the permanently

<sup>1</sup> Mr. Sundararama Sastri, M.A., M.Sc., has assisted me in drawing up the tables and the graph.

<sup>2</sup> *Asiatic Quarterly*, 1932, p. 440.

settled tracts of Bengal, Bihar and Orissa, and parts of the United Provinces. The standard outturn is 'the average yield on average soil in a year of average character.' The outturn figures are deduced from crop-cutting experiments, but in most provinces such experiments have not been systematically carried out, and in some they have not been undertaken since 1919; and although in the meantime considerable increase in the area under improved varieties of crops has taken place, the figures adopted in 1919 are still used for estimating crop yields. The worst link in the chain is the annavari estimate which is submitted by the village patwari. The annavari represents the relation of the crop reported on to the normal crop per acre, but it is based on guess-work.

The result is that year after year, the crop forecasts made have proved either an under-estimate or an over-estimate, generally the former. In the case of two crops—cotton and jute—it is possible to test the forecasts by a post-mortem examination. Such a test showed that in both cases the forecasts had been under-estimated. In the case of cotton, the difference is 17 per cent and in the case of jute, 18.6 per cent. The annual average production of cotton for ten years, was 5,380,000 bales, but the post-mortem examination showed that it was 838,000 bales less than the actual crop of those years. In the case of jute, the divergence has been even wider. In a single year (1922) the difference came to 52 per cent. (The forecast was 47.37 million bales; but the actuals came to 64.36 million bales). The area under improved crops has been increasing at a rapid pace during the decade 1920—30; from 2,507 acres in 1920-21, it rose to 12,016 acres in 1930-31. It is true that such under-estimation has made the statistics rather defective as commercial information, but the error is 'systematic' and as we are here dealing with only relatives, it does not affect the result tangibly.

The position in respect of industrial production is slightly better, because although there are no recorded statistics of production in unorganized industries, the statistics of production in the organized industries, is fairly accurate, within certain limits. In

the case of textiles (cotton and jute), we have statistics for a fairly long period, and for iron and steel, sugar, coal, paper, etc., we have complete statistics for the last decade. The publication, from September 1933, of the *Monthly Survey of Business Conditions* has greatly improved our knowledge of production in the chief organised industries, but we have still only a hazy knowledge of unorganized industries, which employ the great majority of our industrial population. Hence the need for a comprehensive economic survey, as recommended by Dr. Bowley and Mr. Robertson.

Four statements and a graph to illustrate them are given below. The first two deal with agricultural production (chief crops) and the next two deal with industrial production (chief industries). The period taken for the analysis is the 12 years from 1920-21 to 1931-32. The average of the estimated production (both agricultural and industrial) during the years 1920-21 and 1921-22 is taken as the base. On this basis the relatives of the several commodities for the successive biennial periods are calculated. The general or composite index number of production for each biennial period is a weighted average of the relatives, the weights being proportional to the values of the several commodities. Throughout, the price per unit of the commodity is taken as constant. For all agricultural commodities the average wholesale prices in the years 1920-21 and 1921-22 (base period) are taken as the prices per unit. As prices for all the industrial products for the base period are not available, those of the prices which are given in the *Indian Trade Journal* (cotton yarn, piecegoods, jute bags and gunny cloth, and sugar) are taken for that period and the rest are standard prices recommended by the Tariff Board. These prices are only a means to get the weights, and slight variations in weights do not alter the composite index number to any material extent.

In Tables I and III average estimated production and value of each commodity are given: and in Tables II and IV, the relatives with the respective weights assigned to each commodity

are given. The formula used in calculating the composite index number are:—

1. Weighted arithmetic mean—

$$\frac{\sum p_0 q_1 \times \frac{q_1}{q_0}}{\sum p_0 q_1}$$

$p_0$  price per unit of the commodity in the base year

$q_0$  production of the commodity in the base year

$b_1$  production of the commodity in the given year.

2. Aggregative type—

$$\frac{\sum p_0 q_1}{\sum p_0 q_1 \times q_1}$$

3. The Median.

The weighted arithmetic mean is the biased II type of Fisher (refer Fisher's *Making of Index Numbers*). In Appendix II, Article 8 of the same book, it is pointed out that for the arithmetic mean this is the best system of weighting, because the upward bias possessed by the average has to be counteracted by a downward bias in weighting. As for aggregative type, it is pointed out by Fisher that the two types differ by very little and hence for the sake of convenience in calculations the given formula is chosen.

TABLE I  
Agricultural Production (Quantity and Values)

Commodity.	Price per Unit in 1920-21 and 1921-22 (base).	Average of two years)		1926-27 and 1927-28.		1928-29 and 1929-30.		1930-31 and 1931-32.	
		Value (Crores of Rs.)	Quantity (millions of lbs.)						
Rice (millions of tons)	Rs. 9-0-0 per cwt.	31	558	30-9	556	29	504	31-5	567
Wheat (millions of tons)	Rs. 9-1-0 per cwt.	9-9	179	8-8	159	8-4	152	9-5	172
Sugar-cane (millions of tons)	Rs. 55 per 500 lbs.	3-2	79	2-8	69	3-3	81	2-7	67
Tea (million lbs.)	Rs. 0-9-3 per lb.	343	20	369	21	392	23	418	25
Cotton (million bales)	Rs. 50-9-0 per cwt.	5-2	94	6-2	112	5-5	100	5-5	100
Jute (million bales)	Rs. 300-6-0 per ton	8-3	45	10-5	57	10-1	55	10-7	58
Linseed (thousand tons)	Rs. 12-6-0 per cwt.	568	14	551	14	377	9	351	8
Rapeseed (thousand tons)	Rs. 11-6-0 per cwt.	1,179	28	1,065	26	922	22	1,002	23
Sesam (thousand tons)	Rs. 15-4-0 per cwt.	463	14	467	14	479	14	430	13
Groundnuts: nuts in shell (millions of tons)	Rs. 13-4-0 per cwt.	1-2	24	1-8	36	2-4	48	2-9	58
Indigo (thousand cwt.)	Rs. 415-9-0 per cwt.	44	2	25	1	15	1	14-5	1
Coffee (million lbs.)	Rs. 59-3-0 per cwt.	22	2	26	3	35	4	33-5	4
Rubber (million lbs.)	Rs. 78-0-0 per cwt.	13	1	18	2	25	3	27-5	3
Jowar (millions of tons)	Rs. 6-0-0 per md.	5-8	95	5-6	91	5-9	96	6-3	108
Bajra (millions of tons)	Rs. 6-5-0 per md.	2-3	41	2-1	37	2-5	44	2-0	48
Maize (millions of tons)	Rs. 5-0-0 per md.	2-1	29	1-8	25	2-1	29	2-2	30
Gram (millions of tons)	Rs. 7-0-0 per md.	4-9	94	4-1	78	3-6	69	2-9	48
Barley (millions of tons)	Rs. 10-4-0 per cwt.	3-0	62	2-6	54	2-4	50	2-4	48

TABLE II  
Agricultural Production—(Index Numbers)

Commodity.	Index.	Weight.	Index.	Weight.	Average of 1926-27 and 1927-28.		Average of 1928-29 and 1929-30.		Average of 1930-31 and 1931-32.	
					Average of 1922-23 and 1923-24.	Average of 1924-25 and 1925-26.	Average of 1926-27 and 1927-28.	Average of 1928-29 and 1929-30.	Average of 1930-31 and 1931-32.	
Rice	102	40	101	41	95	38	103	43	107	42
Wheat	121	13	107	12	102	12	116	13	112	12
Sugar-cane	128	6	112	5	132	6	108	5	142	6
Tea	111	1	110	1	127	2	135	1	127	2
Cotton	130	7	155	8	138	8	137	6	115	6
Jute	177	3	223	4	215	4	228	..	121	2
Linseed	161	1	153	1	107	1	99	1	115	1
Rapeseed	117	2	105	2	91	2	90	2	100	2
Sesam	103	1	104	1	106	1	96	1	110	1
Groundnuts	120	2	180	3	240	4	290	2	290	4
Indigo	80	..	45	..	28	..	26	..	22	..
Coffee	105	..	124	..	167	..	160	..	157	..
Rubber	118	..	164	..	228	..	250	..	200	..
Jowar	89	7	86	7	91	7.5	97	8	102	8
Bajra	100	3	91	3	109	3.5	87	3	117	3.5
Maize	91	2	78	2	91	2	96	2	102	2.5
Gram	111	7	93	6	82	5	66	6	82	5
Barley	107	5	92	4	36	4	30	5	36	3

Weighted Arithmetic Mean .. 111  
Aggregative Type .. 109  
Median .. ..

Composite Index Numbers

112 113 111  
107.4 106 102  
106 108 101

\* See Fisher's *The Making of Index Number*, No. 51, (aggregate type weighted).

TABLE III  
Industrial Production (Average of two years)

Commodity.	Average price per Unit in 1920-21 and 1921-22 (base).	Quantity.	Value (Cr. Rs.).								
*Cotton yarn (millions of lbs.).	Re. 1.80 per lb.	661.5	74,55	190.3	88,91	808	90.9	741	83,36	916.5	103.11
Cotton cloth (millions of yards).	Rs. 0.4 per yard	1713.5	68,54	1962.0	78,48	2324	92,96	2116.5	84,66	2651.5	106.06
Jute bags (millions of Nos.).	Rs. 0.46 per bag	365.5	16,81	419.4	19,29	437	20,06	480.4	22,10	478.2	22.00
Jute cloth (millions of yards).	Rs. 0.2 per yard	1187.5	23,75	1402.5	28,05	1482	29,64	1560.5	31.21	1461	29.22
Sugar (thousands of tons).	Rs. 479 per ton	84.4	3,97	79.4	3,74	120.4	5,62	105.0	4,94	189.9	8.93
Coal (millions of tons).	Rs. 9	19.4	17,46	21.1	18,99	21.7	19,53	23.0	20,70	22.8	20.52
Cement (thousands of tons).	Rs. 53	321.0	1,03	321.	1.71	512	2.71	555	2.95	555	2.95
Paper (do.)	Rs. 464	25.0	1,16	27.1	1.26	33.0	1.53	39.1	1.82	39.1	1.82
Pig Iron (do.)	Rs. 34.5	454.9	1.57	876.3	3.02	1021.3	3.52	1116.5	3.85	1085.5	3.75
Steel (do.)	Rs. 180	131.3	2.36	284.0	5.11	394.5	7.11	344.0	6.19	442.0	7.96

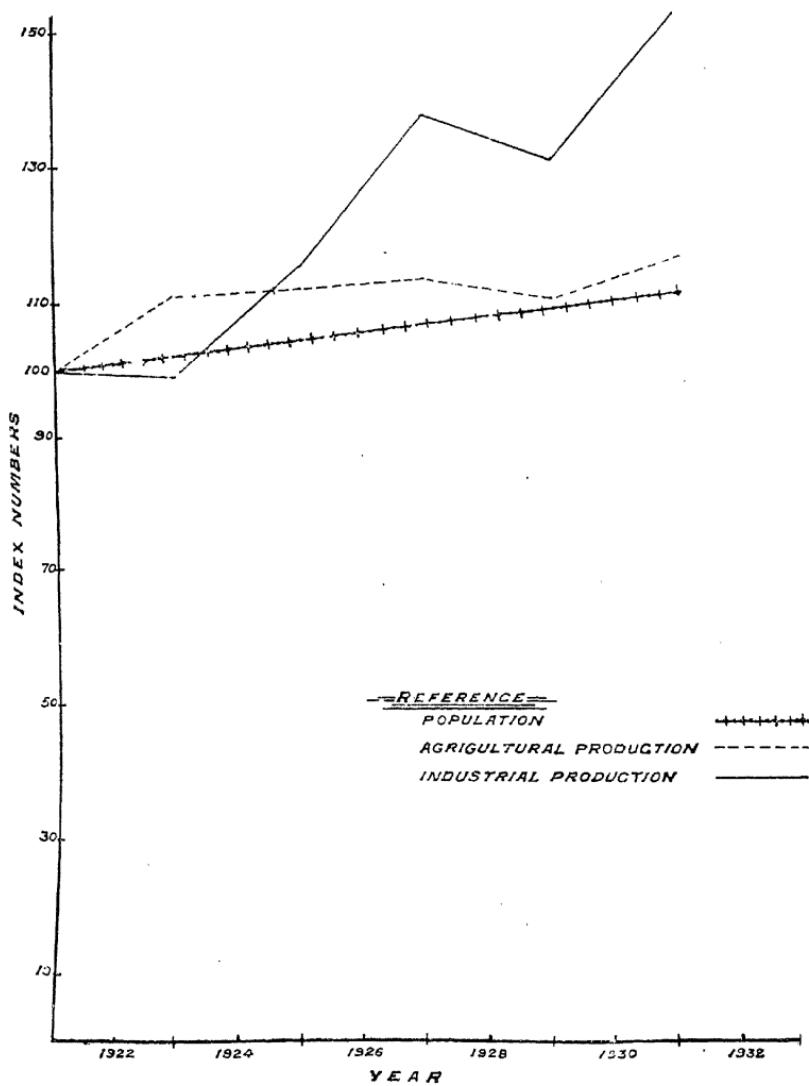
\* As we are here comparing the growth of industrial activity at different periods, the question of double counting does not arise.

TABLE IV

## Industrial Production: Index Numbers

(Base: average of 1920-21 and 1921-22 = 100)

Commodity.	Index No.	Weight.										
Cotton yarn	97.5	35	103.5	36	119.5	33	109.5	32	136	34	161	34
" cloth	103.5	32	118.5	31	140.5	34	128.0	32.5	109	8	109	7
Jute bags	83	8	96	8	100	7	110.0	12	112	9	122	7
" cloth	89	11	107	11	112.5	11	118.5	8	122	8	122	7
Coal	104	8	113	8	116	7	126	8	141	2	256	3
Sugar	114	2	107	1.5	162	2	141	2	289	2	320	1
Steel	110.5	1	238	2.0	331.5	3	329	1.5	371	1.5	504	1
Pig Iron	129.5	1	258	1.0	301	1	495.5	1	504	1	138	0.5
Cement	172.5	1	286.5	1.0	457.5	1	134.5	1	138	1	131	0.5
Paper	86	1	93.5	0.5	114.0	1	134.5	1	138	1	131	0.5
Composite Index Numbers.												
Weighted Arithmetic Mean	99		115		137		130		151			
Aggregative type ..	98		111		128		122		144			
Median ..	104		110		130		131		149			



In result, we obtain the following indices of population and production during the period:—

		1920-21 100	1921-22 102	1922-23 104	1923-24 106	1924-25 108	1925-26 110.4
<b>Population<sup>3</sup></b>							
(1) Agricultural	100	111	112	113	111	116	
(2) Industrial	100	99	115	137	130	151	

It follows from the above that agricultural production has kept pace with population, and that industrial production has increased much faster than population. In the decade 1920—30, population increased by 10.5 per cent, but this is abnormal for India, seeing that in the three previous decades, population increased only by 2.5, 7.1 and 1.2 per cent, respectively. The increase of population between the biennial periods 1920-21 to 1921-22 and 1930-31 to 1931-32 had been 10.4 per cent, but agricultural production increased by about 16 per cent and industrial production by 51 per cent during the same period. The slow growth of agricultural production is due largely to the declining demand for cereals, especially dry grains, which are being supplanted by rice and wheat. India formerly exported large quantities of wheat, but to-day most of it is consumed at home. Thus some classes at any rate have raised their standard of living. Considering the limited scope for the expansion of rice cultivation, it is likely that India will have to depend increasingly on imported rice in future.<sup>5</sup> However, there is a large compensating factor in the steady growth of industrial production.

<sup>3</sup> It is assumed that population increased uniformly from year to year.

<sup>4</sup> Indices worked on the Weighted Arithmetical Mean.

<sup>5</sup> See *Madras Census Report* (1931) I p. 47.

A decade, even twelve years, is far too short a period for correlating population and production. The thirty years between 1900 and 1930 may provide better scope for such a correlation. Full statistics of industrial production for the period are not available and therefore only cotton yarn, piece goods, jute cloth and gunny bags, and coal are taken, but the figures for agricultural production are nearly complete. The following table gives quinquennial indices of population and agricultural production, worked out by Fisher's weighted aggregate index method. For the index number of industrial production, a simple arithmetic mean is found sufficient:—

Period	Population	Agricultural production	Industrial production.
1900-01—1904-05	100	100·0	100
1905-06—1909-10	104	103·0	142
1910-11—1914-15	107	123·5	187
1915-16—1919-20	103	124·5	255
1920-21—1924-25	109	120·0	251
1925-26—1929-30	113	129·0	289

Population increased by 19 per cent during the thirty years, but if we compare the first and last quinquennial, as done above in the case of production, the increase is only 13·5 per cent. Thus, when population increased by 13·5 per cent production increased by 29 per cent. The index would be much higher if we take the arithmetic mean; for the production of several commodities increased enormously during the period. Groundnuts, for example, increased from 93,000 tons to 2,466,000 tons, i.e., 2,500 per cent. Industrial production has also increased rapidly; the annual production of cotton textiles increased from 500 million yards in 1900 to 2,654 million yards in 1931-32. Hardly any pig

iron was made in 1900; but 1,085,000 tons of it was made in 1931-32.

Thus, whatever period we may take, there is no indication that population has outstripped production. It does not mean that India is not overpopulated. It may, or may not be; that is a different question, and I do not propose to deal with it here. All I can see from the statistical study carried out is that if India was not overpopulated in 1900—and that is the view of some—it is not overpopulated now. Production has been keeping pace with population; and in some lines—*e.g.*, mill industry, commercial crops—it has increased at a much more rapid pace than population. And this progress has been kept up during the world depression—and that is a significant fact.



# **CONFERENCE PROCEEDINGS**



## WELCOME SPEECH

BY

THE HON'BLE MR. JUSTICE KHALWAJA MOHAMAD NUR,  
*Vice-Chancellor, Patna University and Chairman, Reception  
Committee, Indian Economic Conference.*

LADIES AND GENTLEMEN,

It is my privilege as Vice-Chancellor of this University and as Chairman of the Reception Committee to offer a most cordial welcome to the distinguished delegates and visitors to the Eighteenth Session of the Indian Economic Conference. My sincere thanks are due to the delegates who have come from long distances to attend the Conference and take part in its deliberations. We are conscious of the inadequacy of our arrangements for their reception and comfort, but I hope they will generously forgive our shortcomings, take the will for the deed and accept our humble hospitality in the spirit in which it is offered. Shortcomings of our arrangements will be more than made up by general friendliness and stimulating intellectual contacts for which such conferences are primarily intended. Soon after we invited the Conference, the Province was visited by a very severe earthquake. Though normal life has been restored, its effects and also of the floods, which followed it, on the economic life of the people will last for many years to come. It is a matter of satisfaction to me, and must be to you, that we are able, in spite of these calamities, to hold the session of the Conference in our midst.

It is a matter of gratification to me that the Conference has been opened by the Hon'ble Minister in charge of the departments of Education and Development in this province. The subject of Economics is doubly connected with his department. On its theoretical side it is a subject which occupies an important position in the curricula of our University education. On the other, its

practical problems are vitally connected with industry, labour, agriculture and co-operative societies on which depends the welfare of the people of the country.

During these days of what is called economic depression, the need for true guidance and correct perspective is essential for facing the problems of every-day life. Economic problems are complicated and their solution is beset with enormous difficulties—political, social, national and international. The deliberations of the Conference will, I hope, place before the thinking people the mature judgments of those who have made special study of the subjects which will come up for discussion before it.

The Conference is meeting at a time when various economic problems are agitating the minds of the people. Legislation for inauguration of a Reserve Bank is an accomplished fact. Its formal opening is a question of few months. The controversy, which centred round its constitution and functions, has been settled, at any rate for the time being. The fall in the prices of agricultural produce, which commenced in 1929, is still facing us and the end of it is not yet in sight. Unemployment among the educated youths of the country is heart-rending and no university can shut its eyes against it. No solution except economic planning of the country seems to me of any practical utility. It may be said that a problem like economic planning for India cannot be solved by theoretic discussions, even when they are conducted by men whose learning and experience give them special qualifications to deal with it. The method for solving it must depend upon the course of events which derive their significance from the working of historic processes and their being a part of objective situations. Speculations, however, have their use inasmuch as they help us to distinguish between essential and non-essential elements of the situation and concentrate the minds of the people on methods which accelerate the course of development inherent in the nature of things. India is a poor country with undeveloped resources and unlimited needs. It has to rationalise its economic life and make the most of its possibilities. Bihar

being one of the poorest provinces of India has all the greater interest in the solution of the problem of economic planning.

I have referred only to one of the topics which will come up for discussion before you, as it is a subject in which a layman like myself can also claim to be interested. I do not propose to deal with other topics, though all of them are of vital importance to this province. I am however glad that you are going to give your attention to the problems which the figures of the Census of 1931 place before us. They are of great importance to this province as it is one of the most densely populated parts of the world. The importance of throwing light on the working of forces which have made it a land of striking contrasts and poorly developed resources cannot be too much emphasised.

Your discussions will be of the greatest advantage to those, who have not had your time and opportunities to study those problems, to appreciate their nature and thus avoid following paths which may lead us nowhere.

I congratulate you on your choice of your President. Professor C. N. Vakil is a gentleman, who not only occupies a position of great responsibility in one of the premier universities of India, but has also made valuable contributions to the study of a large number of Indian economic problems. I am sure he will preside over your deliberations with conspicuous success and receive the whole-hearted co-operation of the delegates, you met at Patna for the first time in 1923. Since then the world has changed perhaps for the worse, but the Economic Conference has, during this period, grown in utility and experience and is now an institution which can look forward to a long career of constructive and useful work of real importance. I hope that under the able guidance of Professor Vakil you will make this year's session so successful that in future you can look back upon it with satisfaction and pleasure. I do not wish to detain you longer as you must be anxious to hear the address of your President-elect. Let me hope in conclusion that when you go back to your homes, you will carry with you happy recollections of your stay here.

## INAUGURAL ADDRESS

BY

THE HON'BLE MR. S. A. AZIZ,  
*Minister of Education, Bihar and Orissa.*

LADIES AND GENTLEMEN,

When I was asked by our worthy Vice-Chancellor the Hon'ble Mr. Justice Khwaja Muhammad Noor to perform the opening ceremony of the economic conference to be held to-day, the 26th December, 1934, at Patna, I wondered why there was an attempt to rob me of my holidays which I had intended and planned to spend outside the province where distress and depression were likely to be less than in Bihar and Orissa. On reflection, however, I readily realized that the Vice-Chancellor deserved to be profusely thanked by me for affording me an opportunity of coming in direct touch with so many distinguished visitors whose profound knowledge of the science of economy and learned discourse will prove illuminating and vastly helpful to the country and particularly to our province in solving the problems of poverty which have been aggravated by economic depression, earthquake and floods of almost unparalleled intensity and gravity.

The term economic depression is found, these days, on the lips of everybody. All have been affected by it but none has been able to devise any means of removing it or escaping its effects. The State, the Religion, the philanthropist, the statesman and everybody who tackles the question of improving the economic condition of the people often feels baffled and bewildered. Some men console themselves by believing or uttering that times will mend and the problem will solve itself. It will, I am afraid, never solve itself as long as the cause remains. Human resources have not come to an end. They have to be pooled together to enable us to meet the difficulties. Though the subject of your

conference is vast and intricate and many volumes have already been written on it yet you have to continue your efforts ceaselessly to find out remedies for the economic ills to which mankind is subject. Your deliberations and conferences are bound to yield results which, if properly utilized, will give some relief to those who are involved in poverty and struggle for existence. The economists can play very important rôle in the uplift of the depressed people and making the poor rich and the rich richer. As a layman I can indicate for your consideration only such subjects as are engaging our closest attention and have a direct and important bearing on the economic life of the people. They are Agriculture, Industry, Co-operation and Education. All these departments of the State are fortunately or unfortunately administered by me as a Minister at a time when the need of their development is the greatest and the fund is the smallest owing to the crippled state of provincial finance.

Agriculture is unquestionably our most important industry. It is the main source of sustenance for 90 per cent of the huge Indian population which is one-fifth of the entire population of the world. But agriculturists have to face difficulties which are caused not only by most inadequate return, in vast majority of cases, for their labour and investment but also by the uncertain nature of crops and many accidents to which they are liable. Most of them have hardly any credit and cannot therefore take loans even when the agricultural needs are pressing and the money could be used to the best advantage. Many of them borrow money ostensibly for productive purposes but really to meet the expenses to be incurred on ceremonious occasions. They thus get involved in debts which grow into a crushing burden both by exorbitant terms and incapacity to pay. Even if agricultural operations are conducted under favourable conditions without incurring debts, the net result cannot, in the case of small farmers, be sufficient for their livelihood unless fresh markets are found and improved methods of production are introduced and adopted. A subsidiary source of income by small industrial occupation which a farmer

can conduct in his cottage is absolutely necessary to enable him to save himself from hunger and cold. Some cottage industries of our province, mainly in cotton and silk, have not done badly and are full of promise.

Rural indebtedness is another appalling problem which seems to defy any solution. No practical scheme has so far emerged from the suggestions made in various quarters. Co-operation is the only thing which inspires hope and if a band of sincere, earnest and capable men took part in this movement, it will bring about economic regeneration of the masses and of a section of the classes as well.

Sugar industry has received special attention at the hands of the Government of India and local Government. This important industry of our province had done well in the past and will continue to bring a substantial relief to the growers and adequate return to the factory owners provided the latter did not pay a poor price for the cane and the former did not ask for too much.

The problem of unemployment of the middle and lower middle classes requires very careful consideration to enable the correct remedies being devised. If the army of young men continued in increasing number to seek and receive instruction under the present or any other system of education with a view only to find employment in Government service or to join a profession or business, a very large number of them are bound to be disappointed for the obvious reason that only an infinitely small proportion of such men can be absorbed in lucrative occupations. Some blame the present system of education without suggesting definitely to what extent the modification should be effected and how to do it. Some may say the remedy lies in having a Mustafa Kamal and absolute autocracy, others may pin their faith in complete democracy, but those who know the excesses and dangers of either and consider neither one nor the other desirable or possible to have, will advise to make the best use of what exists and evolve a practical scheme of economic reconstruction and educational reform which will cause no great upheaval in the old order of things. Lastly there

is the question of population of which both quality and quantity call for and are worthy of your serious consideration. Birth and death have taken place since the dawn of creation and this process of production and destruction will continue till Doomsday. Men, animals and plants all tend to multiply far beyond their actual requirements. It is less difficult and objectionable to prevent excessive production in animal and vegetable kingdoms than to restrict the increase of human beings. A small nation in a large and extensive country needs expansion of population both to provide for its defence and to stimulate prosperity. But the population of India, which is already huge, and particularly of the densely populated territory of Tirhoot, is increasing much faster than the means of subsistence. Some real remedy or palliative has got to be found to cure or mitigate the misery.

No body of men can make larger and better contribution towards the solution of economic problems than yourselves. And none can welcome you more heartily than I do to this conference which I have the privilege and pleasure of declaring open with a wish and prayer that the results of your labour may be conducive to the prosperity and happiness of the people, particularly of Bihar and Orissa.

# SPEECH OF THE PRESIDENT ON THE FORMATION OF ECONOMIC OPINION IN INDIA

BY

C. N. VAKIL,

*University Professor of Economics, Bombay.*

THE HONOURABLE MR. S. ABDUL AZIZ, MR. VICE-CHANCELLOR,  
LADIES AND GENTLEMEN,

I thank you for the great honour you have done me in asking me to preside over the deliberations of this Conference. I am deeply conscious of the heavy responsibility, particularly because it is put on comparatively young shoulders. Your appreciation and co-operation, will, I hope, enable me to discharge my duty with that confidence which is the privilege of a riper age.

## **The State and Economic Life.**

The world is at present in an economic ferment and we find that the existing economic structure as well as existing economic relations have been completely upset. Neither the economic experience of the past nor the teachings of economic theory have proved a complete guide either in the understanding of the complex phenomena that have developed or in the search for their solution. Instead of this, we find gigantic efforts being made to restore order out of the prevailing chaos in different parts of the world on new lines with the consequence that the whole basis of economic life is gradually undergoing fundamental changes. On the one hand, we have the Russian experiment which involves a thorough overhauling of the social and economic structure and which has in view the communistic ideal. In order to achieve their ideals, the Russians have adopted a new method of economic approach, which has become popularly known as 'Planning.' Though this

was ridiculed at first, the rest of the world, differing in their aims and policy, have however, found something to imitate in the Russian method, with the consequence that various countries are now adopting some sort of 'Planning' as the method to remove the existing economic ills. The paradox of capitalism manifested itself in its extreme forms in the United States of America. The Americans are trying to remove the anomalies of capitalism by 'Planning' without any idea of overthrowing the capitalistic order in the Russian sense. Italy and Germany, on the other hand, have developed a form of State Capitalism, which also has 'Planning' as its principal method. We are thus presented with a clash of ideals, and therefore of actions, and though 'Planning' seems to be the common feature, its place and significance varies considerably in the scheme of things in the different parts of the world where it has been adopted; in consequence, the word 'Planning' has acquired a variety of shades of meaning, which are rarely clear to the minds of those who use it, with inevitable confusion in the current discussions on the subject. While this confusion lasts, what is clear, however, is the fact that the principle of *laissez-faire* is dead, and that the functions of the State in the economic sphere are considerably enlarged. With the increase in the functions of the State, a suitable machinery to carry out the same must be established and such machinery should have some plan to work upon. Though differing in type in each case, 'Planning' as the method for discharging this new function of the State, has become not only popular but essential. Two broad categories of this method may be distinguished. In some countries, a pre-determined economic and social policy involving a change in the basic structure of society leads to 'Planning' which is intended to put that policy into operation, for example, in Russia. In other countries 'Planning' is being adopted as a method to reorganise the economic life to suit modern conditions without aiming at a fundamental change in the existing order, though it cannot be denied that this is bound to involve a gradual drift away from the existing basis, for example in the United States of

America and the United Kingdom. We come to the conclusion, therefore, that though the meaning of 'Planning' differs, though it has different grades or degrees, though the motives or outlook with which it is practised happen to be widely apart, it has come to stay, inasmuch as the State is now acknowledged as the chief guide and controller of economic life with or without a definite purpose, and adopts 'Planning' as its principal method.

#### **British and Empire Economic Policy.**

Such far-reaching changes are bound to affect every country; inasmuch as this new change is a change primarily in the function of the State, the effect on India is being felt through England, because of our political relations. In other words, British policy and method are being reflected in this country in the gradual adoption or otherwise of the economic changes referred to above. With wonderful adaptability, England realised the folly of sticking to *laissez-faire*, and while revolutionary or spectacular changes were being adopted in other countries, she deliberately changed her entire economic policy as if overnight. The execution of the new economic policy in other countries, has involved important repercussions in the political field. Such far-reaching changes, involving interference in the details of the economic life of the people, which had to be promptly put into operation, would not be possible under the slow moving machinery of modern democratic institutions. The rise of dictatorship in those countries where Economic Planning is the order of the day, may be thus explained. Without changing her political structure, however, England managed to have the requisite force and promptitude of a dictator in her National Government which eliminated party politics for the time being. At the same time, she realised that under the new conditions, with the growth of powerful nations, British supremacy could not be maintained unless Britain could weld the Empire together by new ties, chiefly economic. In consequence, we find that during the last few years, the National Government in England has succeeded in bringing about a

complete transformation of the economic policy of Great Britain, both within and without. We have the spectacle of the most highly industrialised country in the world, trying to protect its agriculture and industry. The Gold Standard now stands discredited by being thrown overboard by its chief custodian. The home of Cobden is now a place where restrictions and controls in trade, industry and finance flourish in such abundance that Cobden himself would not recognise it. The economic policy of Great Britain is now characterised by tariff changes, commercial agreements, and quota restrictions on the one hand, and on the other by the development of a 'sterling area,' and the starting of Reserve Banks in Empire countries to work the new financial system. The growth of an Empire shipping policy with a view to reserve Empire trade for Empire ships, seems to be under consideration. A plan of complementary production and trade within the Empire by which the more developed parts will concentrate on the higher forms of production, leaving the less specialised forms to the backward parts, and by which an exchange of such products will be facilitated between the Empire group of countries, is gradually taking shape.

#### **Empire Economic Plan.**

The effort to bring the scattered parts of the Empire into a line with this new Empire policy, has resulted in important political developments. Systematic propaganda with a view to creating opinion and goodwill among the peoples of the different parts of the Empire has been carried on. This has been supplemented by other methods differing in each case with the political status of the Empire countries concerned. Persuasion and treatment on a footing of equality have been adopted with the Dominions; an artificial or forced consent is the rule in this country; and a policy of active coercion has been adopted in the case of Crown Colonies, for example, in Ceylon. Whereas in dependencies and colonies, a free and frank consideration from their own points of view of the new policy has not been possible,

in the Dominions where such consideration is possible, practical difficulties and controversies in the application of the new policy, have been noticed. The need for the enforcement of such an Empire policy in future has involved the institution of a chain of Reserve Banks in Empire countries which are to work under the guidance of the Bank of England; and permanent machinery to watch the development of trade and to suggest ways and means for co-operation may grow. It may also in due course, involve a corresponding change in the political structure of the Empire, which, however, is a problem beyond my scope. My present purpose is to trace the existence of an Empire Economic Plan and see its influence on Indian Economic policy. We have literally to trace such a plan by putting together the various measures which have recently been adopted, for the Empire Economic Plan is essentially different from the Soviet Plan. Unlike the Soviet method, the Empire Economic Plan is not outlined as such beforehand; nor is it meant to be worked out within any defined time limit as in Russia. Unlike the Soviet Plan therefore, the existence of the Empire Economic Plan must be traced from the deliberations of different Empire Conferences, the pronouncements of Empire Statesmen, the definite actions taken in different countries in important economic matters, and from the general trend of opinion in Great Britain. Unlike the Soviet Plan, there is in the new Empire scheme no intention to revolutionise society in the interests of workers and peasants. But there is every intention to make the Empire one large economic unit, working in co-operation apparently for the benefit of its component parts, but really presenting a strong organised front to those outside the Empire unit. Besides the strictly economic considerations underlying this scheme, it has thus obviously an important political significance, and how each of these factors will react on the other, is more than one can predict, but it is certainly a matter which cannot be ignored.

#### **British Economic Policy in India.**

So far as the economic policy of this country under British

rule is concerned, it is well known that in the matter of trade and industry, British policy with free trade as the method was in operation in this country till 1924. The second stage is marked by the adoption of the principle of discriminating protection in 1924, when a definite departure in the industrial and commercial policy of the country was made. While this system is still in its infancy, it has been super-imposed, as it were, by the new Empire policy of which we have already spoken. In the field of finance, it is equally well known that since 1899, the sterling standard has been in operation in this country though different names have been given to the system. The continued opposition to the adoption of the Gold Standard in India in the past, the ratio controversy and the linking of the rupee to sterling since September 1931, are instances of the way in which British financial policy has worked in this country. The constitution of the Reserve Bank shows that British or Empire Policy will be imposed in this matter in the future as in the past.

#### **Subordination of National to Empire Interests.**

We have thus two important forces working in the country; on the one hand the growing desire of the people for a better and a higher standard of life, and on the other hand, the needs of the Empire, both resulting in the realisation of the fact that the economic advancement of the country should be systematically fostered. Though the desire is thus common, the outlook is different, which results in a clash of ideas and methods in connection with the measures to be adopted. This is so, because, whereas Empire policy is the key to the methods of the Indian authorities, national policy is the key to the demand of educated India. Whereas the former requires the planning and arrangement of things to further the interests of the Empire, the latter naturally fears that in so doing, national interests will suffer. Because of differences in political status, there is a consciousness that in the United Kingdom and in the Dominions, national interests will be safeguarded first and Empire interests will be looked after next,

and there is a natural fear in the dependent parts of the Empire that national interests will be subordinated to those of the Empire. In India, the acceptance of preference for British goods in schemes of protection under the threat of withdrawal of protection,<sup>1</sup> the acceptance of the Ottawa Trade Agreement in spite of general opposition to it in the country, the linking of the rupee to sterling, the control over the Reserve Bank, the commercial and financial safeguards in the Federal scheme and the proposed statutory Railway Board independent of the future Federal Legislature—these and similar measures are illustrations of the trend of events explained above; they can be understood and even appreciated from the point of view of the Empire in the light of recent developments; and at the same time the opposition to them in this country, can also be equally easily understood and appreciated, due to fears justified by past experience and current knowledge.

#### **Recent Economic Measures by the State.**

The imposition of the Empire Economic Policy on India is not without its counterpart in parallel measures for the development of the country within. What could not be dreamt of in the days of *laissez-faire* up to 1913, is now justified as a matter both of necessity and of policy. We have, in the first place, for the improvement of agriculture and rural conditions generally, the work of well organised bodies like the Imperial Council of Agricultural Research, and the Central Cotton Committee. Measures for the improvement of the economic conditions of the rural population were considered at a Conference of Ministers and officials of Central and Provincial Governments held in April last. An intensive programme for developing marketing facilities for agricultural products was considered to be the measure most likely to lead to substantial results. A scheme of marketing

<sup>1</sup> Arrangements have been made for a new Indo-British trade agreement which will lay down the principles to be followed in fixing Indian protective duties on United Kingdom goods, including textiles.

surveys as a preliminary to devising methods for the better marketing of agricultural produce has now been formulated, and it is expected that the work will be started soon. The position of the farmer is to be further improved by legislation for the relief of debt and by other measures. Some of this legislation<sup>2</sup> which is still under consideration has aroused acute controversy and will be discussed by this Conference. The C. P. Debt Conciliation Act passed in 1933, was amended this year; the C. P. Moneylenders' Bill has become law; and schemes to start Land Mortgage Banks have been formulated in Bombay and Bengal.

The question of the low price which the farmer has been receiving for his product has drawn the attention of the authorities. In this connection, the Crop Planning Conference held a few months ago considered ways and means for the co-ordination of agricultural production for the country as a whole. Suggestions were made to Provincial Governments for keeping up the cultivation of different crops at a remunerative level. More definite action has been taken in the case of sugarcane, and jute. Legislation has been passed with a view to seeing that the growers of sugarcane receive a fair price, and regulating the price at which sugarcane intended to be used for the manufacture of sugar is purchased. Part of the proceeds of the excise duty on sugar imposed this year is to be utilised for the purpose of helping the grower of sugarcane. In the case of jute a scheme of voluntary restriction of the area under jute cultivation helped by official

<sup>2</sup> The following bills may be mentioned in this connection :—

- (a) The Punjab Relief of Indebtedness Bill.
- (b) The U. P. Agriculturists' Relief Bill.
- (c) The Encumbered Estates Bill, U. P.
- (d) The Usurious Loans Act (U. P. Amendment) Bill.
- (e) The U. P. Regulation of Sales Bill.
- (f) The U. P. Temporary Regulation of Execution Bill.
- (g) The C. P. Debtors' Relief Bill.
- (h) The Bombay Money-lenders' Bill.
- (i) The Madras Debt Conciliation Bill.

Some of these bills have been passed since this was written.

propaganda has been put into operation by the Government of Bengal, and the idea of compulsory restriction is in favour in some quarters. The object in either case is to enable the farmer to realise a better price for jute.

In the matter of trade and industry, in spite of the fact that as in other parts of the world, they are passing through a period of severe depression, the new departure in State policy has resulted in the growth of new industries on the one hand and of possibilities of trade in certain directions on the other. Though the protective policy inaugurated in 1924 is still in its infancy and has revealed many defects in working, it must be admitted that large industries like those of steel and cotton would have suffered a severe setback in the absence of protection, and that new industries like those of sugar and matches would not have come into existence or flourished. The Ottawa Trade Agreement with the United Kingdom was followed by a Commercial Agreement with Japan; efforts are now being made for fresh agreements with other countries, and certain interests in Great Britain are arranging to get special privileges in trade. A trade treaty with Burma which is to be separated under the Federal scheme, is in contemplation. Trade Delegations have recently visited Africa and Afghanistan, and Indian Trade Commissioners have been appointed in London, Hamburg and Milan, and are likely to be appointed in a few other centres in the near future. Some Provincial Governments have passed legislation with a view to giving financial and other assistance to small industries. Progress in this connection has been slow chiefly owing to the limited resources available for the purpose. This work is to be supplemented by the Bureau of Industrial Intelligence and Research, which has been attached to the Indian Stores Department. The function of this Bureau is to collect and disseminate industrial information, to assist in industrial research and to help the Provincial Governments and industrialists in the matter of industrial growth.

In the financial sphere, apart from the controversial issues such as the control of the Reserve Bank or of the exchange rate

of the rupee or of the exports of gold, we may say that the creation of the Reserve Bank of India may supply a long felt want for the co-ordination of the money market in this country with our currency policy, and generally give an impetus to the growth of a sound banking system.

#### **Recent Economic Measures by the People.**

While these illustrations indicate the nature of the activities of the State in economic matters, it may be pointed out that the people on their own behalf have also taken an active interest in the economic development of the country. The creation of the Swadeshi spirit corresponds to the 'Buy British' slogan in Great Britain and is an essential complement to the policy of protection. The All-India Spinners' Association has done useful work in connection with one important village industry, and its work is now to be supplemented by the creation of the All-India Village Industries' Association which will look after other cottage industries. In the case of large industries, though all is not well, we find a movement in some cases towards a joint organisation for common purposes, particularly for marketing the product and eliminating unnecessary competition as in the case of cement and sugar. The Cement Marketing Company of India is a well organised pool, which has full control over the marketing of the cement manufactured in India because all cement factories have joined it. The Company also controls the quantity and quality of production. The work of the Indian Sugar Mills Association is more limited in scope. Chiefly with a view to meeting the competition of foreign sugar at the port towns, this Association has drawn up a scheme for the marketing of sugar, by which a certain percentage of the production of certain groups of factories in the United Provinces and Bihar will be pooled, and sold in the port towns at rates which will meet the competition of foreign sugar in these towns. We may say that this is a development in the direction of cartellisation, a form of industrial growth which

is becoming common in the West in the case of important industries.

### **The Formation of Economic Opinion.**

This rapid survey of changing events in the economic sphere in the world in general and in our country in particular, indicates that the trend of thought and of events is definitely towards a new economic order. Whether it is Capitalism or Socialism that ultimately succeeds; whether it is Imperialism or Nationalism that holds the field, the fact is obvious that no country is now allowing its economic life to drift, and that every country is anxiously planning economic measures with a view to its prosperity and progress. Though the degree and nature of planning differ according to the motives with which it is undertaken, the fact remains that we have now an undisputed expansion of the functions of the State in economic matters and the tendency towards this expansion may further increase in course of time. It is inevitable therefore that the economic policy and the economic growth of a country will in the future be shaped to an ever increasing degree by the State. In the case of a country, where the State is responsible to the people of the country or makes an effort to represent the national will, there will not be that clash between economic policy and opinion which may be noticed in a country like ours. At this juncture therefore, the formation of a right economic opinion for an economic policy in general as well as for the solution of various problems in detail, is a most urgent need. With the planning of economic measures, the planning and organisation of economic opinion must precede and be concurrent. A critical and scientific study of plans and measures, public and private, helped by informed and free discussions by disinterested persons, with a view to forming the right economic opinion in the interests of the country, will be a national service of the greatest importance. It is in order to emphasise the need for the formation of such opinion that I have sketched at some length the recent movements in the economic sphere in this country and elsewhere.

The formation of a right economic opinion should be of vital importance to any country, even in normal times. Its importance to our country at the present juncture is of much greater moment, because we are passing through a period of transition, and because economic policy once formed and adopted, may take such roots that it would be difficult to change it. It is therefore wiser to think of the policy beforehand and shape it in a manner calculated to serve the best interests of the country.

#### **Agencies for the Formation of Economic Opinion.**

In this connection, let us make a brief survey of the more important parties and their methods that are responsible for the formation of economic opinion in this country. We shall then be in a position to see whether we, as academic economists, can play a useful part. We can say in a broad way that at present the economic opinion in the country is formed by (a) Government, (b) Commercial interests, British and Indian, (c) Legislatures and Politicians outside the Legislatures, (d) Financial and Economic Journals and (e) Academic workers. So far as the Government is concerned, it influences economic opinion by a variety of annual and other reports, which it publishes; by the special studies of certain problems which it undertakes, by the reports of committees and commissions which it appoints from time to time, and by important speeches or pronouncements of members of the Government and high officials. The strong point in the opinion thus being formed is that it is supported by a systematic study of facts made by well-equipped departments and highly trained officials. At the same time, the publication of data and views is often made according to the convenience of the Government. The weak point is that it very often reflects the set notions of the Civil Service in the attempt to justify Government policy. Besides, there is an intolerance on the part of the Government of criticism of their policy in and out of the Legislatures, and such criticism is often branded either as politically minded or even as racial, in spite of the well known fact that the Government policy and measures

themselves may have been dictated by political and imperial considerations.

So far as British Commercial interests are concerned, we find that they are better organised and have full time workers for the study of the various problems that concern them. Well equipped with data and material suitable for their purpose, they are able to influence Government opinion more effectively; this is so because on the one hand they are naturally willing to support Imperial Economic Policy and on the other, they have an easy access to authorities, both in England and India, socially or otherwise. So far as Indian Commercial interests are concerned, they are growing in importance in the formation of economic opinion, but compared with their stake in the country, their organisation is far from adequate. So far as a systematic study of problems is concerned, with a few honourable exceptions, it may be said to be absent. So far as the staff of the Indian commercial bodies is concerned, it is mostly clerical and is not equipped for research and investigation of those manifold complex current problems which require knowledge and training, essentially different, and often superior to that possessed by the staff of these bodies. Indian commercial interests usually find themselves in opposition to the policy of Government, but they are not always able to support their opinion with that convincing proof, which can come out of a systematic study of a high order. For example, in connection with the Ottawa Trade Agreement, a detailed study of the trade with non-Empire countries and of the effect of the Agreement on small industries could have been organised by the Indian Commercial bodies; the Government of India having omitted these aspects from their review, we are now left with a one-sided view of the situation. So far as the politicians in and outside the Legislatures are concerned, without going into details, we may say that the position is roughly of the same nature as is true of British commercial interests on the one hand and Indian commercial interests on the other. The same general position is reflected in the case of Financial and Economic Journals;

in this case, however, we have in recent times, a few exceptions of the type of weeklies like ' Indian Finance ' and ' the Indian Economist,' issued from Calcutta. There is nothing in Bombay to compare with the valuable work done by these weeklies in Calcutta.

So far as agricultural opinion in the country is concerned, it is unorganised, and the position is such that it is often difficult to find what the true agricultural opinion is with reference to particular problems. The position is at the same time clouded by the fact that Government and British Commercial interests on the one hand and Indian Commercial interests on the other, are all fond of defending their policies in the name and interests of the farmer. Whereas this is so in the case of agriculture, the growing number of industrial labourers have some organisation varying in importance and usefulness in different parts of the country. There is great room for improvement from the point of view of the industrial labourer in the existing state of things, so far as the formation of opinion in his interests is concerned.

#### **The Academic Economist.**

This brief analysis of the way in which economic opinion is formed, shows that in proportion to the magnitude and importance of the problem, the existing arrangements for leading public opinion in regard to economic policy and problems, are wholly inadequate. In making this observation, I have not referred to the position of the academic workers, which I propose to discuss in greater detail. It may, however, be assumed that the general criticism regarding the inadequacy of the existing agencies for the formation of a right economic opinion is applicable also to academic workers. In the case of a backward country like ours with innumerable complex internal problems and with an unusually large population, the economic problem is already sufficiently acute to demand the concentration and efforts of a large army of scientific workers for its study and solution. To this problem is now added the urgent need in view of recent

tendencies in the economic sphere for a more organised and prompt effort to study current problems, both in their local and international aspects. In other countries, Universities and other academic institutions are highly equipped both in the matter of library and other facilities as well as in the matter of trained staff in each branch of Economics, which makes specialisation possible. Compared with this equipment and compared with the magnitude of our problem, the existing equipment and resources of Universities and other academic institutions in the matter of economic studies in our country, may be characterised as poor. The amount of literature issued in connection with each important economic problem in important world centres on the one hand, and the amount of work required to be done in each problem with reference to this country on the other are so vast that it is absolutely necessary to have specialists in each branch. Whereas comparison is often made between the work of economists in this country and that of economists in the West, the important fact is often forgotten that whereas in the West specialisation in each branch is both facilitated and encouraged, two or three teachers are required to be masters of all branches of Economics in the Universities and Colleges in this country.

Moreover, in other countries, academic work is supplemented by or encouraged by the organised work of other bodies; for example, political parties, commercial organisations or specially endowed research institutions engage highly trained workers for the study of current economic problems from their respective points of view. There is a natural process of action and reaction between the strictly academic workers and the non-academic workers in the matter of investigation and research in economic problems, which results in a constant criticism of one another's point of view, ultimately resulting in the establishment of truth. Besides educating public opinion by means of their publications, such bodies provide leaders of thought with useful material. Very often, such work anticipates and creates a demand for public

enquiry,' or supplements the work done by Government; sometimes, it covers fields wholly ignored by Government and in any case, it affords an intelligent corrective to data and opinion made current by those in power. This kind of work also results in a constant flow of highly trained academic men into Commerce and Politics. In any case, such contact between academic experts and men of affairs results in a co-ordination of ideas and a scientific study of facts without which life in modern countries would be guided and controlled in a one-sided fashion.

#### **Limitations of Academic Work.**

Unfortunately, even the limited resources that we possess in the academic sphere cannot be fully utilised for that larger purpose which I am contemplating in this discussion. To make my meaning clear, let us for a moment analyse the existing talent and resources in the form of College and University teachers that are available. The other classes of workers in the field of economic studies are so few that one need not consider them in this connection. In the first place, there is a class, perhaps accounting for a large percentage of the total, of teachers who are poorly equipped, which is no fault of their own; the fault is of the institutions and the system. The point, however, is that we cannot hope for any useful or original work from this class of teachers. In the second place, there is a class of well equipped teachers, who, by their training and inclination are in a position to do useful work, but are poorly paid and often over-worked. Though a fortunate few of these may in course of time go up the ladder, on the whole, we can have few hopes from this class of teachers. The third class of teachers, chiefly those in Government service in the superior grade, are as a rule both well equipped and highly paid. From the point of view of their own personal ambition, once secure of tenure in the service, the impetus in their case to do original work is comparatively little. But the great factor which works against this class of teachers is the existence of a positive hindrance in the form of restrictions by the authorities on the free expression

of opinion. A scientific worker ought to be allowed to express his opinions freely, irrespective of persons and parties. The government servant, however, in this country is required to worship government more than science, and if his work happens to uphold the views of the authorities, he may be patted on the back; on the other hand, if his views are likely to go against the policy or the opinions of the authorities, they may not be expressed; if he does express them, he will suffer. The fourth class of teachers working in Universities and private institutions, who are both well equipped and well paid are comparatively few in number. They have opportunities for independent thought and facilities for work, which though poor compared with those available in the West, must be characterised to be quite good under our conditions. The limited amount of original research work on different economic problems which has been published in recent years, is mainly due to these causes. It is obvious therefore that if academic workers are to play a better and more useful part in the formation of a right economic opinion in the country, we have to look to this fourth class of teachers and institutions employing them.<sup>3</sup> If the status of the academic economist in public esteem is raised on the one hand, and if public and private resources are spent freely in order to encourage and develop the work of this class of institutions and teachers, a desirable link in the formation of a right economic opinion will be supplied at this juncture of our country's history. It would be highly desirable for those who are interested in this problem to think of ways and means for giving an impetus to scientific economic work of an independent nature. A few suggestions may, however, be made.

#### **Suggestions for Improvement.**

(a) Endowment of Chairs and Fellowships for research work in economic problems; public funds should be spent to a much

<sup>3</sup> This does not mean that the other classes should be ignored; there are good exceptions in each and ways and means for a general improvement of each class should be thought of.

greater extent for this than hitherto: and it is an object towards which charity may be usefully directed. In addition, commercial bodies and magnates will do well to help in such endowments either for general or special studies. (b) The expansion of the Economics Departments of Universities and Colleges by the appointment of specialists in different branches of Economics who should be given facilities for such specialisation and not burdened with other work. (c) Employment of a special research staff for the study of current problems by commercial and political bodies and organisations in the country. (d) Encouragement of research publications and their wider use and publicity. (e) Consultation with experts for advice on a footing of equality, either by Government, commercial bodies or political organisations, with adequate remuneration wherever necessary. (f) The removal of restrictions by government on their academic staff in the matter of expression of opinion on economic problems. At a time when the government are trying to be responsive, if not responsible, such a measure would be a statesmanlike gesture, removing public prejudice against government actions and enabling the formation of a healthy economic opinion. One wonders how such restrictions could have continued with 'Education' as a transferred subject since 1921. (g) Government departments, semi-government bodies and commercial organisations should welcome independent research workers and give them willing help. The research worker is at present in many cases, considered a nuisance, causing disturbance in the existing routine of things in these departments and bodies.<sup>4</sup> He is often suspected as an agitator or as a spy who may misuse the information. Moreover, with few exceptions, the attitude of

<sup>4</sup> (a) In connection with a study of Railway Rates in 1931, the G. I. P. Railway refused permission to refer to published tariffs of former years, which were not on the market and which could not be had elsewhere; 1931.

(b) In reply to a request for information regarding legislation to relieve the farmer from the load of debt in the Madras Presidency, the Registrar of Co-operative Societies, Madras, asked me that the enquiry should be sent through the Vice-Chancellor of the University.

highly placed persons, either officials or commercial magnates, with reference to a research worker, is neither pleasant nor encouraging. With the growth of democratic institutions in this country, government departments and other parties would do well to realise that the petty-mindedness, which usually characterises their attitude in this matter, is responsible for the accumulation or formation of prejudice which might well be removed and prevented by welcoming *bona fide* research workers and giving them due recognition and facilities. (h) The encouragement by government and commercial bodies to societies and associations doing organised research work. (i) The improvement of existing government machinery in the matter of collection and publication of economic and statistical information and of expansion in those cases at least in which the magnitude of the work is such that private effort may not succeed.

#### **Private Effort Towards Improvement.**

So far as private effort is concerned, the suggestions made above cannot be carried out unless those in possession of wealth, realise the full significance of this work in the interests of the country and are willing to spare funds for the purpose. Even if commercial bodies undertake to investigate their own problems by employing their own full-time staff, the work done by them will usually be of immediate and passing moment of the short-view type. In order that a detached long view of current events may be taken, it is desirable that free scope should be given to academic workers by allowing them adequate opportunities. The opportunities may be of two types:—(1) facilities to study practical problems of commerce and industry and (2) financial help in the form of endowments of Research Chairs or Fellowships, or adequate grants for specific research problems by recognised workers. With a few honourable exceptions, it would not be untrue to say that in this country there is a divorce between the academic economist on the one hand and the practical businessman on the other. The former is considered too theoretical and therefore of little use

by the latter: nor is the businessman willing to recognise the status and position of the academic worker in practice. The academic person on the other hand is not always willing to make efforts to understand the point of view of the businessman, and apply his mind to practical problems.

Moreover, the want of agreement among economists on important problems often scares away the businessman; the latter must however realise that a difference of opinion either in any scientific work or in a practical problem is not an unhealthy sign; that such a state of affairs is true of many other walks of life; that the ever-changing economic phenomena make it impossible for any two economists to look at them from the same angle; and that given sympathetic understanding and co-operation, ways and means could be found to reduce such differences to a minimum. To take an illustration, our medical advisers often differ both in their diagnosis and in their treatment. We complain of such differences, but still resort to the doctor. We do not prescribe for ourselves, nor try to improve upon given prescriptions, though each of us is more familiar with his body than the doctor. In the case of the economic doctor, we dispute his advice because he is not in agreement with his fellow worker; we do not allow him to diagnose the economic ills properly, but ask him for a sure remedy: we sit in judgment on his prescription, add to it or alter it as we like, apply it or not, but are ready to blame him for the consequences.

Coming back to the relation of the businessman and the economist, we may say that perhaps, the pride of wealth and power in the one case and the pride of learning on the other, are in conflict; but unless both parties realise that either has to give and take from the other, and that a co-ordination of the knowledge and experience of both on a footing of equality will alone result in the solution of current complex problems in the true interests of the country, the desired progress will not be possible. The businessman needs to give up his attitude of judging the academic person without giving him opportunities to study and understand

practical problems; he must realise that that attitude is bound to offend academic pride and keep the true academic person at a distance from the practical man. The academic person on the other hand must realise that he has much to learn by way of information and experience from the practical man of business, which he can never hope to obtain from books. It is an understanding of some such nature and an appreciation by business magnates of the national importance of the work of the academic person, who is treated with the highest respect in spite of his comparative poverty that has enabled the creation of that class of scientific workers, who form the true backbone of current economic opinion in other advanced countries.

#### **Government Effort Towards Improvement.**

So far as the government effort for carrying out some of the suggestions made above is concerned, it may be admitted at once that the authorities in India are quite alive to the urgent need of improving and expanding their existing machinery and of giving facilities to private workers. The unfortunate part, however, is that their action is not in consonance with their ideas; financial and other considerations have come in the way of improvement and expansion, and the usual red-tape mentality comes in the way of giving facilities to private efforts. In fact, in some cases, this mentality acts as a positive hindrance as explained above. The hesitating attitude of the authorities, in the matter of economic investigation and research, compared with an obvious desire to do something, may be seen from the fact that three important reports on the subject have been issued in recent years without, however, any substantial result. The Indian Economic Enquiry Committee reported in 1925 in favour of a scheme for an Economic Survey of the country and for the institution of Central and Provincial Statistical Bureaux. It was unfortunately left to a statistician and an economist to strike the bottom out of the scheme from its very inception; for one is not in a position either to understand

or appreciate the attitude of Mr. Burnett-Hurst in his minute of dissent to the scheme of Sir M. Visvesvaraya. Nothing came out of this; in the meanwhile, however, other countries were developing special economic organisations, both for expert advice and investigation to help the executive in their work. In order to advise the Government of India on the best method of doing similar work in this country, Sir Arthur Salter, Director of the Economic and Financial section of the League of Nations, was invited to this country. His report issued in 1931 outlined a scheme for an economic advisory organisation which involved the creation of a Central Economic Advisory Council as well as Provincial Economic Advisory Councils, each assisted by an expert staff for the purpose of advising the respective governments on current economic problems. Nothing substantial came out of this report either. In January 1933, Sir George Schuster, the then Finance Member, was good enough to address the Sixteenth Indian Economic Conference at Delhi on the subject of an Economic Survey for India and the improvement of Economic Statistics. He invited the co-operation of the Conference and of the Indian Economic Association in that connection. In response to that suggestion, a special committee of the Association prepared and submitted a memorandum to Sir George Schuster and offered co-operation on behalf of the Association. This effort at co-operation on behalf of the Association was unfortunately treated with scant courtesy. By the end of the year, Dr. Bowley and Mr. Robertson were invited to this country to report on the same problem. Mr. Robertson's presence at our last Conference at the Annamalai University, followed by a visit of one or both of these gentlemen to most University centres gave opportunities to Indian Economists among others, to explain to them the kind of work that was being done by them and what could be done given the necessary facilities and encouragement. In their report published in the beginning of this year, they advocated a scheme for an Economic Census of India with special reference to the Census of Production and reorganisation of statistics. The scheme

involves rural and urban surveys and contemplates close co-operation with Indian Economists through the Universities. For recognising the status of the academic economist in general and of the Indian Economic Association in particular in the scheme advocated by them, we may well pay a tribute to these distinguished fellow workers in the same cause elsewhere. Though nothing, as usual, has yet come out of this report, if the Indian authorities and commercial magnates will take a lesson out of this report by recognising the status of the economist and the value of his work, and by helping and encouraging him, a great national service will have been rendered.

Though these reports have been shelved, a few minor efforts have been made, perhaps in the right direction. We have now Boards of Economic Enquiry or similar bodies in the Punjab, the United Provinces and in Bengal, though the constitution and functions of these Boards vary in different provinces. Some expansion of the work of the Department of Commercial Intelligence and Statistics has recently taken place; in addition, a few more publications are now being issued by that Department. This is of such a limited nature compared with the magnitude of the task, which can be seen from the reports referred to above, that one may well despair of any substantial result. Besides the inherent limitations of Government work in this connection in any country, there are obvious limitations of a special nature of Government work in this country. Added to these limitations, when the Government is not in a mood to do more than the bare minimum compelled by necessity or circumstances, the need on the one hand of greater pressure on the Government to do more, and of private initiative and effort on the other, is all the greater. The necessary corrective to State effort which is provided by private effort in other countries, is a specially urgent necessity in our country, in view of our peculiar conditions, and it is to be expected therefore that those concerned will take a long view of this matter and make an organised effort in the right direction.

**The Work of the Indian Economic Association.**

While criticising the existing agencies for the formation of economic opinion in the country and making suggestions for their improvement, I would be failing in my duty if I did not ask the members of the Indian Economic Association and of this Conference to think of ways and means by which they can play a more active and a more useful part in this national service. The two important ways in which the Association has been doing its work for the last 18 years are the publication of a Quarterly Journal and the holding of an Annual Conference in co-operation with the Universities. Without in any way disparaging the work of our Editorial Board or of the Managing Editor of the Journal at Allahabad, I think it would be easy to agree upon the proposition that there is great room for improvement in the quality of the material published in our Journal and also in the time of its publication. The Annual Conferences have provided meeting places for an exchange of views, chiefly for academic workers and those interested. Owing to great distances in our country and also owing to the want of encouragement or the absence of facilities, many persons who would otherwise take an active interest in the Conferences are prevented from attending them regularly. In consequence, though a few members regularly attend the Conferences, the composition of each Conference varies considerably from that of any other. Besides this difficulty, the quality of the papers submitted and the standard of discussion also need to be raised. Some arrangements have been made in this connection as a result of discussions during the last two years, and it is hoped that things are somewhat better now than before, but we need not be ashamed of admitting the fact that here also there is considerable room for improvement. I venture to make a few suggestions, which may form the basis of discussion, and if adopted, by general agreement will, I hope, enable us to improve both these features of our work.

In the first place, we may organise local centres, chiefly in University towns or other places wherever suitable arrangements

are possible. The members of the Executive Committee who, as a rule, belong to different University centres, may undertake each in his own sphere to organise such a local centre. In other places, other organisers should be found. The object of the organiser in each centre should be to bring together the members of the Indian Economic Association resident in the local area and those few selected persons, who by their knowledge and experience or position, are likely to help in the formation of a study group. This group so formed, may arrange for weekly or fortnightly meetings for the frank discussion of problems. The discussion should be preceded by an original study or investigation of the problem by one or more members of the group. The subjects of such study should be in the first place those fixed for discussion at the ensuing Conference and secondly those of local interest. The ultimate result of such discussion may be a paper either jointly written by some members of the group or by an individual. So far as future conferences are concerned, the papers submitted will have thus been the result of systematic study and mature deliberation. At the same time, there may be other material resulting from such study and discussions, which may well find a place in the Journal. If in course of time we find that this system works successfully and that we have more material than we can afford to publish in the Journal, we may think of arranging for the issue of special bulletins on special topics. Arrangements will have to be made for some contact between the centres during the course of the year, so that each may be aware of the progress of work in the other. In some cases, one centre may be in a position to help another by the supply of information or advice. The Annual Report of the work of the Association would then contain information regarding the work in different centres, which means that the centres will have to keep the central office informed of the work done in each place. The work of the Secretary of the Association is bound to increase and he may have to be provided with suitable assistance for the purpose. This would result in live and continuous work throughout the year by the members of the

Association in different groups, and when the result of such work is pooled at the end of the year at the time of the Conference, we shall certainly have something of which the Association and the Conference can be proud. This will also enable those who for one reason or another, are not able to attend the Conference to contribute indirectly to the success of the Conference and of the work of the Association, because they would at least be in a position to help the study group in the local centre by their co-operation. This work should as far as possible be done in co-operation with Economic Societies or similar organisations, if any are in existence at any centre. These study groups should also be able to obtain the help and co-operation of Government Departments and of Commercial bodies in their work. By some such arrangement, which is in no way revolutionary and which would enable us to develop gradually from the existing nucleus that we possess, we should be in a position to make our opinion both weighty and valuable, to raise our status high in public esteem, to make the membership of the Association a matter of pride and privilege, and to make its work in general a thing which those concerned cannot afford to neglect. In organising on the lines I have suggested the financial aspect has been borne in mind; though there will be some additional office expenditure, it will be within our means and will be worth while. It should not be difficult for us to be able to increase our membership if our work improves, in which case increased fees will more than meet the additional expenditure. The work of the local centres will automatically attract interested persons who will be willing to join the Association.

I realise that the success of our work may depend on the co-operation and in some cases, even the financial assistance of Universities, commercial bodies and persons and of the Government, but we cannot expect to get such assistance unless we have gone a step forward ourselves and created a demand for it. In spite of difficulties, I am optimistic that once the value of our work is appreciated on its merits, such assistance would be forthcoming.

In doing so, however, we shall have on the one hand to give an assurance and on the other to ask for a privilege that our work shall be on scientific lines and in the true interests of the country; it shall, therefore be free from pressure of outside parties or of those with pre-conceived notions. The task of a scientific investigator is difficult because he cannot please parties if he worships science and truth. His work should therefore be all the more valuable and deserving of encouragement by all those who realise that at this juncture in the history of our country, an organised progress in this connection is both desirable and urgent.

#### **Conclusion.**

Out of the darkness created by systematically fostered prejudices and organised selfishness, a ray of true economic light may yet penetrate. The force of that light for good will depend on the devotion of the disinterested economist to his science, helped in his difficult task by those in power and authority in private and public life. We can only pray that the foresight necessary to bring forth such devotion and such help will not be lacking, and that the privilege of an atmosphere of freedom in which alone creative thought may blossom will not be denied to the economist; otherwise the thinking that is done to order or in an atmosphere of fear and suspense will be like the incoherent mumbling of a man in dotage, the precursor of the approaching end.

## DISCUSSION ON ECONOMIC PLANNING FOR INDIA

Professor Adarkar said: "I should like to put myself among the pessimists, as our discussion is likely to prove merely academic and the Government horse cannot be made to drink the water of Economic Planning. I can see at least three strands of thought in the papers read: *viz.*, Economic Recovery of India, which is the immediate problem, Economic Reconstruction of a long-run character, and Economic Nationalism. There are two kinds of planning, so far as theory goes, planning for restriction and planning for plenty. The former is typified by economic nationalism, restriction schemes, etc., while the latter is exemplified by public works and the Russian Five-Year Plans. The former must be deprecated as withholding the fruits of human progress from the masses and making for poverty not only amidst plenty but amidst greater opportunities for plenty. In India a false picture is presented by the high credit of the Government which is following the narrow ideal of a mere budgetary stability. The immediate problem can be solved by two measures, currency relaxation and public works. Prof. Thomas has quoted Keynes's dictum that 'You cannot get fat by buying a larger belt.' This may be true, but you need not put on a currency belt which would strangle you out of breath. Prof. Thomas's 4: 3 ratio, however, of primary to secondary employment resulting from public works might be accepted. As regards the permanent problem, India cannot be richer so long as we are denied true economic power consisting of fiscal, financial and monetary autonomies."

Professor D. N. Banerjee: By way of supplementing and emphasizing what had been said by various speakers on the question of Economic Planning for India Professor D. N. Banerjee (Dacca) laid more stress on the permanent object of economic planning than on its immediate object. He agreed with Professor Gyanchand that some of the essential conditions for the success

of a planned economy did not exist in India. The first essential condition was reliable statistical information in regard to every aspect of our social and economic life. This information must be utilised for the formulation of correct economic policies. In the absence of such information the Government might, as Dr. Bowley and Mr. Robertson rightly apprehended, do as much harm by guiding production into unsuitable channels as they had done good by drawing idle resources of land, labour, capital and organisation into use.

He next emphasized that economic planning to be really successful must be accompanied by political planning. All schemes for a planned economy on a comprehensive scale, were bound to fail unless the people of this country could effectively control its finance, currency and exchange. In this connection he referred to the Joint Committee Report.

Thirdly, economic planning must be accompanied by "life planning." Major-General Sir John Megaw was right when he said that the evils of India were due to ignorance of life planning. The remedy was obvious: it consisted in education directed definitely towards teaching the people how to make a success of life. Sir Hyde Gowan therefore was not far from the truth when he stated that of all the calamities against which the Indian agriculturist had to contend, not forgetting famine, floods, pestilences, the cruelty of nature and the cruelty of man, by far the greatest was ignorance—ignorance of the new methods which Science was teaching, ignorance of their rights, ignorance of the very contents of the bonds they signed, ignorance of the way in which their debts grew until they found themselves weighed down under the burden.

Fourthly, the speaker emphasized the need of the deliberate restriction of reproduction through celibacy, delayed marriage and, if necessary, through contraception. At any rate the question of population in India required scientific investigation.

He concluded that the lot of the Indian peasant—the forgotten man at the plough—could be improved only by four remedies;

education, co-operation, consolidation (of holdings) and the restriction of reproduction.

Mr. N. S. Narsimha Aiyangar (Trivandrum) said that he did not take so pessimistic a view of the possibility of Economic Planning for India as Dr. Adarkar had done. The Joint Parliamentary Committee had declared that in the new régime, social and economic policy would be entrusted to Indians and that principle had to be put to the test by responsible Indians, undertaking the task of planning for the economic rehabilitation of the country. Planning of Indian economic life had been going on in the past under British administration though the people themselves were not responsible either for its formulation or its implementing. But now an opportunity was being offered to them to do so, which, if they did not avail themselves of, others far away would do that for them and it might not suit their interests. What India wanted was not merely a plan for raising prices as Dr. Thomas had argued or for improving agricultural marketing but a comprehensive plan for regulating the productive forces of the country in the interests of the greatest number of its people. It could not be done, said the speaker, without some amount of socialization. But the Government in India had always been socialistic. It was not their function to draw up a plan here and there but to decide upon its necessity and to suggest how it had to be set about. Academic opinion, administrative knowledge and practical experience had all to be brought together to formulate a plan for the future. A suitable organisation like an Economic Advisory Council representing these bodies should be first established. In any case, when the whole world was busy planning for itself, it would be a great mistake if India allowed others to lay down the plans for its future economic life. If it failed to do so it would have to thank itself alone for its economic backwardness.

Rev. J. Kellock: There is one comment which I think may justly be made regarding several of the papers on planning which have been presented to the Conference, and that is that they outline a series of ameliorative measures for agriculture, trade, industry

and labour, and then confer the word *planning* upon that outline. This sort of definition makes planning just a new name for investigations and activities that have been going more or less systematically in recent times. It tends to make planning fade away into vague purpose or general aspirations.

Over against this omnibus conception, it seems to me that the idea of *planning* should entail the policy of the limited objective, or clear definition of aim. In order to clarify the issue, I would suggest in bare form the kind of thing which would be entitled to be called *planning*. The authorities would ask, what is the root trouble in India to-day? The answer would, I think, undoubtedly be, the low purchasing-power of the agricultural masses. The objective therefore would be adopted of raising that purchasing power as high as possible and as speedily as possible. A plan therefore should be made with this definite object.

To meet the fundamental need of the situation some such bold and positive experiment as the following seems to be required. Let the planning authority choose some large region and let it declare that it is going to endeavour, within say 10 years, to turn it into a reign of prosperous and substantial farmers. Let it divide the area up into consolidated farms which might be expected to yield the holder a net income of say Rs. 600 a year, and let it make arrangements for the equipment of the holders with a suitable working capital. A part of the area would be kept by the planning authority to provide a living for those who were dispossessed—that part being run by the dispossessed as a collective farm under Government supervision, or else run as a state farm with the dispossessed as labourers.

This is merely an endeavour to indicate something which might be possible in the India of to-day, and which, if successful, might be widely extended so as to build up a prosperous middle class farming population. It is an endeavour to indicate something which would not entail a complete disruption of our present order of society, and which yet might get us out of the terribly depressing *gradualness* which seems to be the inevitable prospect unless

something radical is done. Something not unlike it took place in the enclosure movement in England in the 18th century—though the actual procedure involved much injustice and would not be imitated. The economic philosophy underlying my suggestion is that unless India can build up a prosperous and substantial farming population who will demand a large variety and a large quantity of manufactured goods, the market will not exist which would make possible a widespread industrialisation in India. The prime necessity is not planning for the expansion of industries in India, but planning for the expansion of purchasing power among the agricultural masses.

Another matter to which I would like to refer is the question whether economic planning is possible without nationalisation of production and distribution. Some of the papers assert that it is possible and others declare that it is not possible but none of them have examined the matter with any fulness. The truth seems to be that a system which retains freedom of enterprise must always be limited in its planning by consideration of its effect upon the entrepreneur, whereas a fully socialist system having full control over all prices and wages, can make any plan work, so long as it does not make the price of the total output greater than the total amount of the incomes of the people who are to buy that output. Under the system of free enterprise the sequence always is,—(a) the prospect of profits, (b) savings flowing into investment, (c) the maintenance or rise of prices, (d) the maintenance or rise of wages. As Beveridge graphically puts it, we get first the carrot of profits, then the house of saving-investment, then the waggon of prices, and last the trailer of wages. The American National Recovery Act—with its fatter pay envelopes and shorter hours, its Securities Acts, etc., has been trying to go against this sequence with probably a harmful obstruction of enterprise.

The surest way to going about recovery from depression is to work along with and not against the natural forces of recovery. Under the system of free enterprise that means to help to bring

about a condition of things in which there will be prospects of profits for the entrepreneurs. The way most certainly doomed to disaster will be to retain the system of freedom of enterprise and at the same time so to increase taxation and costs of production as to make the prospects of profits vanish.

There is one final point to which I would like to refer. Several of the papers insist that planning must be an all-India affair. Thus Professor Karve for this reason sees a danger to planning in the "fast growing and restive tendencies among the provinces." The question however really turns upon the nature of the plan contemplated. The analogy of the rise of the co-operative movement and other movements that have been of great practical economic value, suggests that definitely proposed solutions of economic problems may grow up from areas of application much smaller than that of the national organisation. It might well be that in India the stimulus to all would be the example of successful effort by one province in the sphere of planned solution for the problem of raising the purchasing power of the agricultural community.

Professor B. B. Mukerjee of Patna emphasised the necessity of a definite objective. He was in favour of attacking the problem as a whole and not of wasting time over improvement of different departments. The objective, he affirmed, could be achieved by gradual evolution and persistent action, and by developing the agency for carrying out the scheme from within. This agency might be developed in the villages by reviving village organisations.

Professor Ayyar (Dacca University) starting the discussion on Economic Planning in the afternoon said: If one thing could be learnt from the many papers on "Economic Planning" submitted to the Conference, it is that we all feel the need for doing something *great and quickly*. It is also clear that teachers of Economics can be intensely academic on what is after all an *urgent, practical and difficult* problem. After all, an academic thinker can only indicate the need, but it is the statesman and the financier who have to work out the intricate details. It was surprising that writers on

economic planning could understand by the term the improvement of talhsils and villages step by step. The term has acquired 'a new significance' technically by the planning experiments of Russia, and of Mussolini and Hitler, and the essence of the idea is *an all round scheme of economic improvement started and worked or assisted predominantly by the State to achieve an estimated result within a specified short period.* Slow, isolated activities—unco-ordinated—do not come under economic planning as it *must* be understood. A narrower meaning would make any small step, by anybody, economic planning, but that would be a parody of the phrase. One writer has given us a full paper on an Economic Advisory Organization and its Constitution. This is not Economics but administration of economic problems. Dr. Dey's paper comes nearest to a proper perspective of the subject and is written with care, but leads to a very sterile conclusion. His experience as a member of the Bengal Board of Economic Enquiry has made him come to grips with the necessity for planning and he is impressed by what he has read of the achievements of Stalin and Roosevelt but is appalled by the difficulties in India, and in his own province he feels that in the matter of jute it has not been found possible to do anything by way of control as a solution for a very urgent economic problem. The writers who have raised considerable doubts about any great experiments being initiated in India in the near future are greater realists, and Professors Gyan Chand and Karve have struck the proper note taking India as she is. Government which after all must play the rôle of Hamlet in this play of planning is unlikely to go ahead as Stalin has done, and it is probably better to realise that an increase in the economic functions of Government and a progressive control over our economic lives will definitely lead us towards Socialism of a sort. Those who are shy of a socialistic march must not gamble with planning in any serious degree.

Mr. Karwal, Allahabad: Economic planning may be defined as the changing of the economic structure of a country in such a way as to ensure a certain level of subsistence to the people of

the country. India is a poor country. Economic planning with reference to India implies nothing less than an attack on her poverty. But there are a number of difficulties that stand in the way of such an attack. First of all, leaders of popular opinion in India say that the government is not actuated by the national interests and economic planning is practically impossible without the active support of the government. Secondly, there is the lack of funds. India is a vast country. Economic planning here will have to be on a large scale. This in the absence of huge funds will be extremely difficult to effect. Thirdly, the population is increasing at quite a fast rate. Unless the population is kept within the means of subsistence provided, no economic planning will achieve permanent results.

These difficulties and the others noted by the different speakers and authors of papers do not, however, mean that nothing should be done, that we should sit in despair. No. A comprehensive programme for the country as a whole should be chalked out so that unnecessary duplications might be avoided and worked out with whatever is at hand—whatever the government is pleased to or persuaded to do, whatever funds are available, etc. The process will have to be a slow one, but that cannot be helped and does not matter. Slowly and slowly the difficulties will melt away and the objective will be achieved.

**Mr. Manohar Lal:** Resuming the discussions, in the afternoon Mr. Manohar Lal of Lahore said that the readers of the papers had to some extent destroyed one another's position some emphasising the need for economic planning and others insisting on the insuperable difficulties in the way of planning.

The speaker chiefly dwelt upon the limitations that were imposed upon the country by present circumstances and himself stood for making the best of the situation. There were political difficulties, and there were difficulties arising from fragmentation of holdings, and laws of inheritance, etc. During the last 60 years attempts had been made at industrialisation, but how far had those attempts taken them? It was very difficult, he

declared emphatically, to launch upon a scheme final in all aspects.

He hoped that the younger economists would keep these limitations in mind and be satisfied with adding what they could to the stock of economic ideas. If they realised that they were surrounded by practical difficulties and had to deal with practical problems better results might be expected to follow.

Professor Sepahimalani, Hindu University, asserted that the problem of "Economic Planning" was not only economic, but political, social and psychological—political because a harmony between the State and people was necessary; social, because the whole social structure needed overhauling; and psychological, because they ought to know what was to be the driving power. The present Government was an important factor, whatever its attitude might be, as was quite evident from the Ottawa agreement. Under the existing circumstances "Planned Economy" was impossible, yet it was the only way out of the economic strangulations, through which the country was passing.

The speaker strongly differed from those who wanted to take things as they were and make the best of the situation. It was just like asking a man who was bound hands and feet to move freely or to free himself.

Messrs. B. K. Madan, R. B. Gupta and H. Sinha also participated in the discussion.

Professor Thomas, in reply said that most forms of economic planning aimed at increasing production, but increased production cannot help at this juncture. A breakdown of demand is the principal feature of the present situation, and to revive it, purchasing power must first be injected by public authority, and then private enterprise will come forward and keep it up. Such plans have been pushed to extremes in America, but he would not recommend for India a "New Deal" in the present circumstances. Great Britain has taken careful steps to keep up the internal purchasing power, and in spite of adverse circumstances she has succeeded admirably. India must also move in the same

direction. Government expenditure must increase to something like the levels previously maintained, and that will go a great way to relieve unemployment.

Dr. H. L. Dey, referring to Professor Adarkar's criticism that the horse could not be made to drink the water, said that the proper function of the economist was to tell where the water was and to analyse its quality and not to make the horse drink the water. He mentioned in particular how in England Mr. Keynes had advocated sane monetary policy in vain for over ten years and how at last the British bankers and politicians had been compelled to accept many of his views. Regarding Professor Thomas's suggestion that India should now concentrate on measures of recovery from the depression and not take up the question of a long-range plan, Dr. Dey opined that there was no necessary antagonism between the two; for, recovery plans in respect of price-raising, rationalization, debt liquidation, etc., could be devised in such a way that the machinery of recovery would also serve the purpose of long-range planning. He thought that the Roosevelt Experiment was highly suggestive in this respect. He agreed with Dr. Gyan Chand that the present political instability and uncertainty of India would be a source of great difficulty in the way of planning, but he believed that, nevertheless, a good beginning might be made with what he had called 'planning of planning' and 'partial planning.' He deprecated the attempt at confusing planning with revolution, because, in his view, planning was quite consistent with parliamentary government and the institution of private property, though, of course, some change in the procedure of the former and in the contents of the latter was inevitable. He further suggested that, though the economist must take account of political factors as his limiting conditions, his primary function was to find out the purely economic implications of subjects of public importance and leave them there for the politician to handle in his own way.

Dr. Gyan Chand: Most of what is being said here or elsewhere in India on economic planning is platitudinous

and the measures which are being suggested are the measures which have been suggested and in some cases even tried for a long time. But they are lacking in realistic understanding of the situation and will, besides being ineffective, create a confusion of thoughts and practice. We have to realise the two simple but important features of the present situation. We cannot choose one pace of progress, we must in order to do anything real go ahead at a tremendously accelerated speed if we are to meet the needs of the situation. Co-operation, mortgage banks, better seeds, and revival of small industries and creation of large ones are all all right in their own way, but they will not give us economic planning or planned economy. And the other fact which we have to remember is that economic planning is impossible without a dominant unity of purpose, and that we are lacking in altogether and there is no prospect of our developing it in the near future. Here I do not refer to our communal strife, but the fact is that in our public life for years to come we will be engrossed by our political issues. It is clear that the parties concerned are marshalling their forces and every measure suggested or introduced is going to be a manœuvre in the coming struggle for power. For economic planning politics should be out of the way but as a matter of fact it is going to be very much in the way. And there is no sign that we have even a dim appreciation of what we want —the objective that we want to achieve in and through economic planning. All this talk of economic planning is based on confusion of ideas and will only lead to purposeless frittering away of our very limited public energy and resources.

The President then allowed the authors of the papers to reply to the points raised against their papers, and Messrs. Thomas, R. K. Mukerjee, Dr. Dey, and Dr. Gyan Chand tried to clarify their position, and to remove the misunderstandings which had arisen in regard to some points of view in their papers.

#### President's Summing Up.

The President, in summing up the discussion, remarked that

to define "Economic Planning" was a difficult task; but the difficulty would be removed to a great extent if they inquired in whose interest they were going to have it. The answer would vary according to the peculiar conditions of different places and different classes.

He was aware that some kind of economic planning had begun to be filtered down into the scheme of things, whether they liked it or not. The time, he said, had come when economists ought to consider whether it was the right type of planning. The task before them was huge and important and it required a firm determination and a real urge to accomplish it.

## DISCUSSION ON RURAL INDEBTEDNESS

Opening the debate on Rural Indebtedness, Mr. Manohar Lal, ex-Minister of the Punjab, said :

The broad features of rural indebtedness in this country are well known to all of us. The stupendous magnitude of this indebtedness, over a thousand crores in 1929, had since no doubt increased, and its weight due to catastrophic fall in prices had also immensely increased. The causes are well recognised; uneconomic holdings and the division of these holdings into small parcels, technically known as fragmentation, and the general habit of extravagance on ceremonial occasions by village people. Add to that, occasional failure of monsoons and by no means infrequent loss of cattle. To these we have only to add, at least in some provinces like the Punjab, facilities of borrowing. It is apparent that proper remedies to get over the evils of indebtedness must be directed against the causes that have led to it, otherwise we secure no more than temporary palliatives. In recent legislation to relieve rural indebtedness, which is strictly a subject of discussion to-day, it would be difficult to say that any substantial efforts have been made to attack the problem in this manner. On the other hand, restricted legislative measures introduced by Governments have furnished in the select committees of the councils, and even more so in the councils themselves, to rural majorities an occasion to endanger the very foundations of credit. It has been forgotten that the village money-lender is an essential part of the village economy and while his position has been steadily deteriorating, the gap created in rural credit has by no means been even partially filled by the expansion of co-operative credit or the institution of land mortgage banks. Another feature of legislation, particularly in the Punjab, has been to pitch the rate of interest at a standard where the lender would not find it possible to furnish the necessary

loans. Extreme modifications in the Usurious Loans' Act have been introduced which may have effects on small industrial borrowings even in urban areas. Legislation, which was started with the avowed object of helping the poorer agriculturists, would have the unanticipated effect of disturbing industrial credit. In the Punjab the recent measure also suffers from the serious defect of making no provision for the recovery of debts while it implies in its rigorous provision the certainty of largely scaling down both the amount and the rate of interest. A mere student of economics, unconcerned by the weight of party politics, could not fail to observe how political and sectional majorities are already using their position in emphasising their parties' views and make no secret of their opinion that their object is to make borrowing impossible by the agriculturists. We, as economists, cannot but recognise that while borrowing and lending may be pernicious as mere private individuals, no production is possible without an efficient credit system. Freeze credit and you destroy industry and impair agriculture. This has been emphasised in the highest pronouncements in the Provinces, most eloquently by that most able of Governors, Sir Malcolm Hailey, in the United Provinces. But our legislatures are forgetting this and it is our duty as economists to see that the foundations of industrial and production power, as laid in a proper system of credit, do not disappear. The remedies in the shape of expansion of co-operative credit and land mortgage banks are undoubtedly the most desirable but co-operative credit to-day meets only a very small part of the agriculturists' need for capital and the land mortgage banks are practically non-existent. The agriculturists' borrowing lies outside the purview of ordinary Joint Stock Banks and for that matter these cannot accept the ordinary securities furnished by the urban borrower. These realities of the situation must be recognised by our legislatures if they are to function usefully and validly in our economic planning of the future.

Dr. Radha Kamal Mukerji of the Lucknow University urged that the entire question of peasant indebtedness was intimately

interlaced with the social fabric and the legal framework and the fundamental issues would have to be faced candidly now in order that debt liquidation might be successfully attempted. The speaker emphasised that land revenue assessment should not trench upon the peasant's standard of living and farming and urged that in the permanently settled provinces where the number of undersized or uneconomic holdings was much greater amounting probably to more than half in Bengal and Bihar and Orissa exemption of such holdings from rent enhancement through tenancy legislation must be considered desirable.

Professor Gurukh N. Singh while agreeing with Mr. Manohar Lal in regard to his criticisms of the measures passed by the Punjab and the U. P. Legislative Councils for the relief of rural indebtedness pointed out that the coming of democracy had nothing to do with the class nature of these measures. The existing legislatures were not democratic chambers. They were dominated by landlords and agriculturists in both the U. P. and the Punjab and it is for this reason that the measures were directed against the interests of the non-agriculturist moneylenders. In this connection the situation will be even worse under the new constitution with upper chambers in the five provinces.

Professor Singh then gave a number of instances to illustrate the class nature of the legislation recently passed in relief of the agricultural classes. To begin with, he pointed out how attempts have been made to bring about substantial reductions in outstanding debts without making it easier for the money-lenders to realise the composed debts. In the Punjab particularly the Government refused to help in any way whatsoever in the realisation of reduced debts.

Prof. Singh then dealt with the inadequate nature of the relief afforded to small agriculturists, especially the tenants in the U. P. through the Temporary Regulation of Execution Bill, and pointed out that the illiberal attitude towards the tenant-debtors was due to the fact that out of a total indebtedness of Rs. 24 crores as much as Rs. 21 crores was due to landlords and agriculturists

themselves. He also referred to the attempt made by the landlords to make distinction between the rates of interest to be paid on bigger loans and those on smaller loans, with a view to benefit the bigger landlords and to enable them to capture the money-lending business. He referred to the danger, pointed out by Mr. Darling, of the expropriation of the peasants by the bigger landlords in the Punjab.

In the end Professor Singh dealt with the question of providing more permanent remedies for rural indebtedness. In this connection he emphasised the necessity of carrying on an intensive and extensive campaign of rural education; getting rid of uneconomic holdings; the necessity of starting cottage and subsidiary industries; and the reform of the land revenue system by introducing the sliding scale and the system of exemptions at the lower end.

Professor Thomas (Madras) gave an account of the debt relief measures in the Central Provinces. That Government has passed three important Acts recently—The Debt Conciliation Act, The Usurious Loans Amendment Act and The Moneylenders Act. The Debt Conciliation Act was passed in January, 1933, and six conciliation boards have been set up. The boards consist of about 9 honorary members and an official chairman. Application for conciliation would be considered only when the creditors to whom 40 per cent of the debts are owing agree to conciliation. Witnesses may be called, but no party can be represented by lawyers. If the parties consent, an agreement is signed and registered. If any creditor refuses a reasonable agreement, the debtor will be granted a certificate specifying the amounts due to the creditor, and if the case goes to the civil court, the creditor will get no costs and the interest allowed will not exceed 6 per cent simple. But unsecured debtors who proceed to court and obtain decrees cannot execute those decrees until all the amounts recorded in the agreement are paid off. If debtors default in paying amounts due under the agreement, such amounts are recoverable as arrears of land revenue, and if that fails the agreement shall cease to subsist. Debt due to co-operative societies can also be brought under conciliation on

the approval of the Registrar. Two of the boards have worked for 15 months. It has meant a great relief to the civil courts as well as to the parties; the lawyers are the chief losers, along with the Government treasury, which loses by having less court fees and less income-tax revenue. The number of cases has considerably diminished in the civil courts at Seoni. The lecturer was very much impressed by the working of the Board at Seoni, the generous spirit animating the members, the accommodating attitude of the money-lenders, and above all, by the ability and fairness of the Chairman.

The working of the Act has brought out several deficiencies. To get the agreement of the creditors to whom 40 per cent of the debts are due is generally difficult, especially if they are mortgagees, and the result is that not many mortgages have come in for conciliation. Only those mortgagees whose suits had been pending in court or who had proceeded to execute decrees are compelled to abide by the agreement. Others can defy the boards and proceed to foreclosure, and thus nullify the agreement in many cases. The granting of a certificate to the debtor is therefore of little help to him in regard to his secured creditors. The favoured position granted to some classes of the secured creditors and the unequal treatment of secured and unsecured debts are serious deficiencies in the Act, and have led to apathy in many parts of the country. These and other shortcomings are being considered by Government, and an early amendment may be expected. The Government of the Central Provinces is convinced that agricultural relief is essential in the present circumstances, and fortunately for that province, there are on its Government some of the ablest men in the whole of India.

The Debt Conciliation Bill now before the Madras Legislative Council is based on the Central Provinces Act, the chief difference being that while in the latter, the consent of those who have lent only 40 per cent of the debt is necessary in order that an agreement may be made, 50 per cent must agree according to the Madras Bill. Obviously, this will make the chances of conciliation weaker,

especially as the great bulk of debt in Madras is to-day secured. Indeed where mortgagors are tottering and the mortgaged property is altogether inadequate to meet the claims thereon, conciliation will be resorted to, but that would rather be like insolvency proceedings. The Central Provinces Act is principally meant to settle unsecured debts, but in the circumstances of Madras legislation that will not seriously tackle secured debt cannot be of any great help.

Mr. Bhulabhai Desai, addressing the Conference on the subject, said :

The subject of rural indebtedness legislation covers a wide field and in approaching it, we must distinguish between the curative and preventive as well as between the political and economic aspects. In the earlier stages legislation was undertaken for the relief of what were described as landed nobility or landed gentry in several parts of India. There are Acts still in force of the type of Gujrat Taluqdars Act and Encumbered Estates Acts under different names and denominations embodying similar provisions. The more or less professed object of these Acts is to prevent disintegration and sale of large landed estates by reason of the indebtedness of the proprietors. It may be safely stated that the main object of this type of legislation is more political than economic. It is intended to preserve a class of vested interests who are, or, at all events, are expected to be the supporters of the present rule, it being assumed, rightly or wrongly, that the continuation of landed gentry is tied up with the continuance of British rule in India. The economic legislation must concern itself with the truly rural indebtedness, namely, the indebtedness of the ordinary peasant proprietor or the tenant. In the framing of the latter class of legislation we have to have regard to the causes of this indebtedness if it is to serve any real or substantial purpose.

The main causes include :

1. Uneconomic holdings by reason of fragmentation;
2. Growing population;

3. Conventional, social or religious obligations the performance of which involves a disproportionate amount of expenditure as compared with agricultural income;

4. The nature of the bargain which is driven by the money-lender in rural areas by the necessitous condition and recurring poverty of the peasant and excessive land revenue which is sometimes the last straw on the camel's back.

It appears to me that while not proceeding too quickly or taking radical steps, it is not only possible but desirable that legislative measures must deal with each one of these causes.

Taking these in order, I am aware that it is difficult to persuade the bulk of the people to change the law of inheritance involving sub-division for the purpose of partition in the case of land and yet it is a fact that among the larger landed estate holders, the custom of primogeniture and other rules of succession prevail which do prevent constant and infinite sub-division. Without suggesting any definite form, it is possible that attention may be paid in this direction to explore the possibilities of legislation.

As regards the second, without directly affecting the social life of the mass of people, Acts dealing with the minimum marriageable ages of males and females will, to a large extent, affect the problem of population. It is not possible, except by means of intelligent understanding, to raise the standard of living which is a great deterrent to undesirable and uneconomical increase of population in Western countries.

As regards the third, legislation can probably least help because of susceptibilities of people and must look to the growing public opinion to induce people no longer to submit to or follow the social conventions entailing expenditure which is a fertile source of rural indebtedness.

As regards the fourth, legislation has been undertaken in several provinces in the form of Acts like Usurious Loans' Acts and Relief from unconscionable transactions or Acts like the Deccan Agriculturists Relief Act. I agree that in dealing with legislation of this kind it has got to be borne in mind that we must

proceed by a sort of the rule of the thumb, and find a reconciling point between freezing credit and its excessive, unwise and unproductive use.

As regards the fifth, I am glad to notice that in some provinces at least the principle of leaving to the farmer sufficiency of subsistence while considering measures of land revenue or tax is being adopted or enforced. I think that must become the general rule all over the country in every form of land revenue legislation.

As regards the curative aspect, one has got to deal with accumulated indebtedness of pre-slump days and slump period and though it may appear somewhat drastic, it should not be difficult to bring about a reconciling point where a fair certainty of payments, spread over a number of years, would induce many money-lenders to reduce their existing claims to a half, if not less. Some effort is being made in that direction in the Central Provinces.

As regards the restriction on land alienation, the subject must be approached very cautiously, from the point of view of lowering the market value of land to the proprietor on the one hand and, on the other, leaving him unlimited credit which will soon exhaust itself. It is not, I think, inconsistent to have land mortgage banks simultaneously with some restrictions on land alienation because it is easy to provide that alienation in favour of certified banks or certified private bankers for the *bona fide* purpose of repayment of existing debts.

I shall briefly mention the Bardoli enquiry of 1928-29 which was referred to during the course of earlier discussions. The Land Revenue Act of Bombay, which dealt with the re-assessment of assessment, provided in substance that an assessment may be revised at an interval of 30 years having regard to the profits of agriculture. That was the main provision on which the enquiry had to be conducted. At the revised assessment in question the land revenue was sought to be increased by 30 per cent all round. The case of the peasants was that the enhancement was not justified even on the provisions of the Land Revenue Act as it stood. It may be safely stated that on detailed examination of every holding in the

whole of the Taluqa it clearly appeared that if in the cost of production was included the cost of labour of the farmer himself and the members of his family, there was hardly any agricultural profit left. It was often asked as to why if agricultural occupation did not leave any profit, the people should still stick to the end. The answer was obvious, that there was no alternative source of employment and the land at all events provided an opportunity for the farmer and his family to engage themselves in labour and earn a poor type of living rather than no living at all. The question was put by the commissioners only because, I believe, they knew that the challenge of leaving the land was not likely to be seriously pressed either by the Government or seriously taken up by the people. The enquiry at all events, resulted in the enhancement being held to be unjustified and in fact, actually resulted indirectly in a certain amount of reduction of the then existing revenue. The largest industry of India and the largest means of subsistence of the bulk of the people is and has to be agriculture and it is a subject in which economical and chemical science has got to exert its utmost in order to render the farmer self-supporting on a decent living wage and on a standard better than that on which he lives to-day. I am leaving out of consideration the unsympathetic attitude of a foreign Government in the solution of this problem, however much they may profess to be the trustees of the poor. While the struggle for political freedom takes its own course, every contribution that economic scientists or chemical scientists, organised banking system, co-operative effort, or creation of land mortgage banks or the association of private bankers, under some form of organisation, reconciling their interests with those of the peasant, can make should be availed of to remove or, at all events, to mitigate the evils of the present appalling conditions of the peasantry of India.

Other speakers who spoke on the subject were Dr. B. N. Kaul and Prof. Gupta.

CELEBRATION OF THE DEATH CENTENARY OF  
MALTHUS AND DISCUSSION ON POPULATION  
PROBLEM ON THE 29TH DECEMBER, 1934.

The Conference before taking up the discussion of the Population problem of the country, as revealed by the last census, celebrated the centenary of Malthus who, exactly on this day—the 29th of December—hundred years ago passed away, after having made one of the most valuable contributions to the economic thought of the world.

Mr. Manohar Lal, addressing the conference, said that Malthus was the very first of the Cambridge economists who startled the world at the end of the 18th century with an essay which was at once so brave, youthful and energetic, on the theory of population, that even today it was a subject of keen controversy among economists. He referred to the intimate friendship that existed between Malthus and Ricardo, although the two differed very widely from each other so far as economic thought was concerned. The speaker said that the position in India with regard to this problem of population at present was such that if some bold plans were not adopted our standard nutrition would further deteriorate. This question was therefore of grave importance. He then announced the decision of the Indian Economic Association to form a separate organization for the study of that problem and the steps already taken in that direction.

It was resolved that a committee consisting of the following persons with power to co-opt be formed to convene a preliminary conference with a view to bringing into existence a separate organisation, Institute of Population Research, for the scientific investigation of population problem:—

Mr. Manohar Lal, Prof. K. T. Shah, Prof. C. N. Vakil, Dr. B. N. Kaul, Dr. Gyan Chand, Dr. H. L. Dey, and Dr. Radhakamal Mukherji (Convener).

Prof. Radhakamal Mukherji then addressed the Conference. He said that the question of emigration was not only an oriental one but it was an issue of international importance and must be studied and solved on a scientific basis. So far as overpopulation was concerned, it had become a menace in a larger measure in the east than anywhere else. He welcomed the proposal to form a separate organisation for the scientific study of the problem.

Dr. Gyan Chand invited the co-operation of all interested in the subject in the work of the new organisation. He announced that Dr. (Mrs.) Adarkar and Mr. Shivarao had offered to co-operate with the organisation.

Discussion then commenced on the subject of the problem of Population.

#### **The Census of 1931:**

Professor Adarkar said:—“ Professor Sinha has not been successful in either showing or disproving that there is overpopulation by his “ practical tests.” Could real incomes per head be greater if numbers had been smaller? This question is otiose, as the concept of the “ optimum ” is a pure mirage. I congratulate Professor Thomas on his neutral attitude and on his brilliant statistical investigation. He is perfectly right in choosing total monetary values rather than crop areas as the test for weightage, as the former are a better indicator of the importance, that the consumers would attach to output, than the latter. Area under crop is liable to vary widely for different products and for different soils, and would give fantastic results.

It is characteristic of the times that the centre of discussions has shifted from the “ possible ” density of Malthus to the “ desirable or optimum ” densities of Cannan. The most important question in India, however, is the future trend of population growth. The Census Commissioner quotes Sundbarg’s law to prove that the age-composition of the population shows that it will be growing in the future. Sundbarg’s law does not, however, enable us to see beyond a few generations. From the net reproduction

rate, which according to Kuczynski is about .77 for India, we must conclude that owing to the diminishing proportion of child-bearing mothers, in less than a century, population will show a falling trend.

Rev. J. Kellock: Dr. H. Sinha in his paper raises the question whether it is possible to have a psychological test of over-population, when he asks,—“ Do we desire to have a small number of very happy people? Or do we think it desirable for everyone to have the chance of living for whom life could be in any sense worth while.” We know how difficult it is to weigh the satisfaction of the consumer against the psychological cost in the case of a simple commodity—especially when one person makes and a different person consumes. And it certainly would be a much more difficult thing to weigh the consumer’s satisfaction against the costs of the whole aggregate of goods that he makes use of. Moreover the things that make life worth living differ greatly from person to person. Dr. Sinha as a statistician is probably never so happy as when he is revelling in masses of figures. Therefore in his case the test whether life is worth living would probably involve an estimate of the correlation between the statistical experience and the total span of his life! For another individual it might be cinemas in place of statistics—or books or bidis or peace for the culture of the inner spiritual life, or opportunities of human service, etc. We shall therefore, I think, all agree with Dr. Sinha when he says regarding this psychological test that the concept is probably another “ empty hat box.”

Dr. Sinha therefore adopts the productive test. The optimum number of population is that number which gives the greatest *per capita* income. This idea of the optimum number is rather an elusive conception, though in itself clear enough. It means that just as for a simple business concern, the size can be increased up to a certain point after which further expansion will meet with diminishing returns so with all the business concerns taken together the amount of labour can be too much, too little, or just sufficient to give maximum returns. Dr. Sinha tells us that we can speak

of overpopulation only with reference to some optimum, but I find it difficult to see how the optimum conception can be brought into use in any direct manner. Summing up he says "The data now available cannot give definite answer to the question whether India is now overpopulated or not; although it may be stated that India was not probably overpopulated during the period 1871 to 1911." This is because there has been a steady upward trend in the real income per head. But if the increase of real income would have been greater if population had been less, then there would be overpopulation, even in spite of that upward trend.

The truth seems to be that we cannot get any clear test of overpopulation. All we can get are indications to commonsense—indications such as large and continuous unemployment or under-employment, the existence of the positive checks, the course of *per capita* income. And over these indications the optimum number concept hovers like an invisible angel—intangible but significant. It is an instrumental conception, incapable of precise determination, yet useful to guide our thinking on the subject—like the marginal productivity concept.

Professor Thomas, replying to criticisms, said that he was not concerned with the question of over-population. It was not easy to prove or disprove that India was over-populated, but it was clear from the statistics brought together by him that production had increased faster than population since 1900.

It was pointed out that he (lecturer) had not taken account of the exportation of foodstuffs, but any one could see that in the last few years India had sent out less of her cereals than she formerly used to do. Wheat was formerly an important item of export trade, but that trade had now practically ceased. So had copra. Rice exports had also diminished, and today imports are increasing fast. If, therefore, export statistics are also taken into account, the conclusion in the paper would only become stronger. It was also pointed out that rather than figures of production, acreage under cultivation should be taken for comparison, but that would be altogether unsuitable (said the lecturer), as an increase

of production per acre cannot be brought out thereby. For example, the introduction of Coimbatore cane had increased production per acre largely, and by taking the acreage under sugar-cane for comparison we cannot get an accurate idea of the increase of total production.

Thus there was every indication that production had increased faster than population, and if the condition of the masses did not bear this out, it must be due to some inequities in distribution. "The population problem of India is therefore one really of distribution. A better distribution of income and of population will enable India to support a larger population on a better standard of comfort."

Dr. H. Sinha, Professors Malkani, Banerji and Ayyar, Dr. B. N. Kaul, Prof. H. Rahman, Dr. P. Roy, and Mr. D. K. Malhotra also participated in the discussion.

## DISCUSSION ON THE THEORY OF INTERNATIONAL TRADE

With reference to Professor Adarkar's interpretation of Cassel's Theory of Purchasing Power Parity, Dr. Dey agreed that there were still many difficulties of a statistical and logical character which had not been cleared up. He was, however, inclined to accept Keynes's criticism that if the purchasing power in question were to refer to the price levels of internationally traded goods, the theory would turn out to be a mere truism. And he thought that perhaps the best way out of the difficulty would be first to measure internal purchasing power by reference to what might be called "the index of general price level" by combining the four secondary index numbers of wholesale prices, wages, cost of living and rent in certain proportions so as to give due weightage to each as suggested by Carl Snyder in his book *Business Cycles and Business Measurements*, and then, to calculate the parity of exchange as between any two countries in terms of such purchasing power index. He further added that, though Cassel had been shifting his emphasis from time to time, the general trend of his thought would seem to stress the central importance of internal purchasing power, a view which was, in any case, in accord with the present-day monetary policy of regulating external exchange in subordination to internal equilibrium between costs and prices. In regard to Professor Kale's thesis that a new theory of international trade was called for, because it had ceased to be trade between individuals and had largely become trade between governments, Dr. Dey expressed himself as doubtful of the validity of Professor Kale's main assumption. He explained that though international trade tended increasingly to be trade between groups and combinations instead of trade between individuals, still the governing conditions of international values were reciprocal demand and comparative costs and they would remain so as long as our

economic relations were guided by considerations of self-interest as distinguished from collective interest as in Russia. On the other hand, if all or many of the nations accepted economic communism in its fullest measure, then international values would be determined by the arbitrary decisions of the planning authorities and there would be no need or even possibility of formulating a theory of international values.

Prof. D. N. Banerjee did not agree with Prof. Gyanchand that the classical theory of international values based on the law of comparative costs and the equation of international demand would become obsolete, or had no future. Nor did he accept the position stated by Prof. Gyanchand that the equations  $10x=15y$  and  $10x=20y$  "must be regarded as a casualty among the numerous other casualties of the strange and bewildering times in which we are living." Although post-war factors might have accentuated economic nationalism and produced the present welter of confusing and conflicting discussion on international trade, yet it was difficult to challenge the truth of the conclusions of the pure theory of international trade. For the solution of the world problems of to-day, it was necessary to reassert the importance of the international division of labour.

Professor Adarkar replying said: As regards the objections raised by Dr. Dey, I must point out that the purest example of Purchasing Parity can be had in a paper standard, though it is not entirely inapplicable to the gold standard. Secondly, so far as ultimate ends of monetary policy are concerned, I am certainly at one with Keynes in believing that internal stability is a greater ideal than either exchange or external stability, as may be seen from the last paragraph of my paper. But I have suggested a synthesis between the two ideals in Section IV of the paper and tried to combine a measure of external stability with internal stability as the main objective. Thirdly, Cassel, while discussing Purchasing Power Parity was not speaking of the gold standard either in his *Money and Foreign Exchanges after 1914* or in *Post-War Monetary Stabilisation*, but of paper standards of post-war

Europe, and he is definite that the parity is to be between the internal price-levels as including both "traded" as well as "non-traded" price-levels.

As regards Dr. Ray's objections, I must at the outset emphasise that my paper is only a contribution to a vast problem of which the theory of foreign exchanges forms the central theme. I give credit to Cassel for giving us the "bedrock" of Purchasing Power Parity, but it is no inconsistency to say that Cassel's theory loses its validity if internal price-level as a whole is implied. Dr. Ray took exception to the section on Real Ratios of Trade, but he did not answer my point that the "truism must remain a truism" and exchanges must reflect changes in international price-levels of two countries, in spite of changes in real ratios. As regards his last objection, I have sufficiently stressed the interdependence of exchange rates and prices in my paper.

Dr. Gyan Chand: That most of the theory of international trade was obsolete should be clear to those who are convinced, as most of the economists here seem to be, that *laissez faire* is passing away and will soon be a thing of the past. The classical theory of international trade was developed on the premises of free competition and the correspondence of labour-costs and money-costs. If free competition is replaced by regulated economic life and international exchange is governed primarily by public policy, the application of the theory of comparative costs will be subject to very serious limitations and the theory will practically lapse owing to the change of basic conditions. Those who are still thinking that trade-barriers are the one obstacle to economic recovery and their removal is the way out are not only missing the significance of all that has happened since the war but putting their faith in a negative measure which cannot give us any relief or make us efficient in dealing with the current problems. The classical theory was a part of *laissez faire* and with the passing away of the latter, the former has to pass away.

## CONCLUDING REMARKS MADE BY THE PRESIDENT

The President at the end of the session made a critical survey of the work of the Association during the previous few days. Speaking about papers on Economic History, he was glad that they contained some very useful original research. On the *Census of India 1931* he had hoped for an analytical and critical study and that hope was not perhaps realised. But there were some very useful papers. He did not, however, agree with Professor Thomas on the question of migration. Internal migration was justified in the peculiar conditions of India. The subject of *Economic Planning* was of great importance for India. Dr. Thomas's paper made an important contribution in regard to the correlation between production and population and the enquiry was well worth pursuing.

Coming to Rural Indebtedness the President observed that during the discussion of the subject a number of interesting points had been made, for instance, there was the broad fact that in recent legislation the money-lender was not safeguarded. Secondly, the rates of interest were not properly fixed. In the third place, there were inter-provincial difficulties due to differences in conditions. On account of these and other causes the loss of credit seemed inevitable. The President was strongly of opinion that a systematic study of a detailed nature was essential for any kind of economic relief, uplift or planning. The disease required to be treated in its roots and not in a superficial manner.

On the *Theory of International Trade* the President observed that recent years had revealed an entirely different background from that of the past on which the old theory was based. We do not know whither we were drifting. There might be agreement between nations. Barter might come into being. There were new forces developing. In some parts of the world there was complete monopoly, e.g., in Russia, while in others there were state

regulation and control to a certain extent by means of a series of commercial agreements. Voluntary combination and co-operation existed only in a small field where there was free play of *laissez faire*. The new conditions certainly called for a modification of the old theory, or the evolution of a new theory which would explain the circumstances which determine the pricing process.

In conclusion, the President referred to a misunderstanding caused by the remark of Mr. D. Banerjee of Dacca to the effect that the President's address was sixty per cent politics and forty per cent economics. Mr. Banerjee was arguing in favour of political planning which according to him should go hand in hand with economic planning. In support of this, he made a casual remark about the President's address. Two or three other speakers alluded to this remark in different ways. The President thought it his duty in this connection to clear the position of the Economist with reference to the idea advocated in high quarters that economies and politics should be kept separate. He observed that if this meant that the Economist should not take part in political agitation or party politics, he was in agreement with it. But if it was meant to convey, as it did in most cases, that political facts bearing on economic problems should be ignored, he would protest against it with all the force at his command. He would do so because to ignore relevant facts regarding a problem is to be unscientific. Viewed from a strictly scientific point of view, such an attitude could not be tolerated, because it would lead to wrong conclusions.

The President expressed his satisfaction for the hearty co-operation of members in the work of the Conference, and eulogised the organising ability, hard work, and the hospitality of the Reception Committee in general and of Dr. Gyan Chand in particular.

The Conference terminated with a hearty vote of thanks to the Chair.

## INDIAN ECONOMIC ASSOCIATION

Eighteenth Conference, Patna University, December 1934

The Annual General Meeting of the Indian Economic Association was held in the Patna University buildings on the 29th December, 1934, at 9 A.M.

### PRESENT:

Professor C. N. Vakil, *President.*

Prof. V. G. Kale.	Prof. H. Ghosh.
Mr. Manohar Lal.	Dr. B. V. Narayanswami Naidu.
Dr. Radhakamal Mukerjee.	Prof. L. C. Tandon.
Revd. James Kellock.	Mr. B. K. Madan.
Dr. P. J. Thomas.	Dr. H. Sinha.
S. Gurmukh N. Singh.	Ch. Sitarama Sastry.
Prof. B. P. Adarkar.	Mr. S. P. Saksena.
Prof. S. V. Ayyar.	Dr. P. Roy.
Prof. D. N. Banerjee.	Prof. B. R. Misra.
Prof. H. B. Bhide.	Prof. G. D. Karwal.
Prof. H. Rahman.	Dr. H. L. Pasricha.
Prof. D. G. Karve.	Prof. H. C. Malkani.
Prof. U. S. Bhatnagar.	Mr. K. H. Kamdar.
Dr. B. N. Kaul.	Mr. Narsinha Aiyangar.
Prof. B. B. Mukherjee.	Dr. Gyan Chand.
Dr. H. L. Dey.	Dr. L. C. Jain.

1. The minutes of the last Annual General Meeting held at Annamalainagar were confirmed.

2. The President referred to the sad demise of Professor H. L. Chablani and Rai Bahadur Sundar Das Suri and the following resolutions were passed all standing:

(a) "That this meeting places on record its deep sense of loss that the Association has sustained by the sad

and untimely death of Professor H. L. Chablani of the Delhi University and conveys its sincere condolence to the family of the deceased.

(b) "That this meeting records its deep sense of sorrow at the demise of Rai Bahadur Sundar Das Suri of Lahore and conveys its condolence to the members of the bereaved family."

3. The report of the Hon. Secretary and Treasurer and the audited statement of accounts for the year ending 31st May, 1934, were considered and approved.

4. The invitation of the University of Dacca for holding the Nineteenth Economic Conference under their auspices was accepted with thanks. It was agreed that the Conference should begin on a day between the 31st December, 1935, and 2nd January, 1936, the exact dates to be settled by the Hon. Local Secretary and to be announced later.

5. The following subjects were selected for discussion at the next Conference:—

(a) Wages in relation to Costs.

(b) Land Tenures—Historical and Modern.

(c) Structure of Indian Industries.

(d) Economic and Financial Aspects of the New Constitution.

(e) A current topic to be decided by the Executive Committee.

6. The following office-bearers were unanimously elected for the ensuing year:—

*President* :—Manohar Lal, Esq., M.A. (Cantab.), Bar-at-Law, M.L.C.

*Hon. Secretary and Treasurer* :—Dr. L. C. Jain.

*Hon. Local Secretary* :—Head of the Economics and Political Science Department, Dacca University.

*Members of the Executive Committee:—*

Prof. C. N. Vakil (Bombay University), Prof. V. G. Kale (Poona), Prof. C. D. Thompson (Allahabad University), Prof. R. K. Mukerjee (Lucknow University), Dr. P. Basu (Agra University), Prof. P. J. Thomas (Madras University), Dr. Gyan Chand (Patna University), Dr. B. N. Kaul (Aligarh University), Prof. H. Rahman (Osmania University, Hyderabad), Dr. J. C. Sinha (Calcutta University), Dr. B. V. Narayanswami Naidu (Annamalai University) and Dr. H. L. Pasricha (Delhi University).

7. (a) It was resolved that the Hon. Auditor, Lt. P. S. Sodhbans, be thanked for his kindness in auditing the accounts for the year 1933-34.

(b) Lt. P. S. Sodhbans was re-appointed Hon. Auditor for the year 1934-35.

8. The draft agreement regarding the Journal between the Association and the University of Allahabad, as recommended by the Executive Committee, was approved.

9. The following gentlemen were elected to represent the Association on the Board of the Journal.

Prof. V. G. Kale. Prof. Radhakamal Mukerjee.

Prof. C. N. Vakil. Prof. P. J. Thomas.

10. The Secretary informed the meeting that a Committee consisting of the Editorial Board, the President and the Hon. Secretary has been appointed by the Executive Committee with a view to devising ways and means for improving the Journal.

11. It was resolved that a Committee consisting of Prof. C. N. Vakil, Dr. Gyan Chand, Dr. H. Sinha, Dr. Beni Prasad, Prof. G. D. Sondhi, Prof. D. N. Banerji, Prof. Gurmukh N. Singh and Dr. Radhakamal Mukerjee (Secretary) be appointed in order to explore ways and means of organising a Social Science Conference on the lines of the Indian Science Congress with separate sections on Economics, Sociology, Political Science,

History, Statistics, etc., and to submit its report before the end of December, 1935.

12. In connection with Prof. Vakil's suggestions regarding the expansion of the activities of the Association by the formation of local study centres it was resolved that the Executive Committee be authorised to take necessary steps in the matter and to report on the same to the general meeting next year.

13. It was resolved that a Committee consisting of the following gentlemen with power to co-opt be formed to convene a preliminary conference with a view to bringing into existence a separate organisation (Population Research Institute) for the scientific investigation of population problems.

Messrs. Manohar Lal, C. N. Vakil, K. T. Shah, Gyan Chand, B. N. Kaul, H. L. Dey and Radhakamal Mukerjee (Convener).

The meeting terminated with a vote of thanks to the Patna University and to the President and other office-bearers of the Association for the year 1934.

L. C. JAIN,  
*Honorary Secretary and Treasurer.*

C. N. VAKIL,  
*President.*

## INDIAN ECONOMIC ASSOCIATION

### **The Report for the year ending 31st May, 1934.**

The membership of the Association showed a slight decline; the number of members on the 31st May being 145 as compared with 149 last year. But the number was improving for the year 1934-35, twelve members having paid advance subscription in the year under report.

The Association suffered a great loss by the sad demise of two of its very devoted members, Professor H. L. Chablani (Delhi University) and Rai Bahadur Lala Sunder Das Suri, Lahore. The former was a member of the Executive Committee and of the Editorial Board and rendered special service as Local Secretary, when the Sixteenth Conference of the Association was held at Delhi in January, 1933.

The financial position of the Association showed improvement. From Rs. 2,171-10-11 on the 1st June, 1933, the balance increased to Rs. 2,433-0-2 on the 31st May, 1934. This includes Rs. 138 on account of advance subscription for the following year, but does not include interest on the fixed deposit which will be accounted for next year. The position might have been stronger but for the fall in the profits of the Journal, half of which as accruing to the Association being Rs. 254-2-3 last year and Rs. 55-11-6 in the present year. The payment by the Association on account of the Conference Number of the Journal for pages exceeding 200 was Rs. 401-13-0 as compared with Rs. 327-15-3 last year, but for the first time a sum of Rs. 82-4-0 was received from authors whose articles exceeded 10 pages. The annual statement of receipts and payments duly audited is attached hereto.

Consequent upon Prof. C. N. Vakil's election as President the Association appointed me Honorary Secretary and Treasurer in January, 1934, and I took over from that time. I have been thus entirely new to the work, but I must acknowledge the constant and complete guidance I have received from Professor Vakil.

Lahore,

*December 22nd, 1934.*

L. C. JAIN,

*Honorary Secretary & Treasurer.*

**INDIAN ECONOMIC ASSOCIATION**  
**Receipts and Payments Accounts for the Year Ending 31st May, 1934**

RECEIPTS		PAYMENTS					
To Balance from last year	..	..	2,171	10	11	By Department of Economics, Allahabad for 145 members @ Rs. 9 each including one	Rs. A. P.
" Subscription from 144 members @ Rs. 12 each	Rs. 1,728	A. P. 0 0	..	..	..	Life member	1,305 0 0
Less received in advance accounted for last year	.. 24	0 0	..	..	..	Expenditure on 42 V. P. P. refused	.. 13 2 0
" Proceeds of 17th Indian Economic Conference	..	..	1,704	0 0	..	Printing and Stationery	.. 45 3 6
" Share of profits from the Journal	..	..	150	0 0	..	Postage	.. 43 11 9
" Advance Subscriptions:-	..	..	55	11 6	..	Clerical Assistance	.. 85 0 0
(a) 11 members @ Rs. 12	132	0 0	..	..	..	Indian Journal of Economics for Conference	..
(b) 1 member @ Rs. 6	6	0 0	..	..	..	Number	.. 401 13 0
" Interest on Fixed Deposit and Current Account received	..	..	138	0 0	..	Miscellaneous expenses	.. 3 0 0
" Authors' contribution to Conference Number	..	..	..	..	..	Bank Balances:-	..
" Miscellaneous receipts	..	..	..	..	..	Fixed Deposit	.. 1,047 7 0
Total	..	..	4,329	14 5	..	Current Account	.. 1,385 9 2
					..		2,433 0 2
							Total .. 4,329 14 5

Examined and found correct. The interest on fixed deposit has not been accounted for.

P. S. SODHBANS, *et al.*

*Lahore, dated 18th December, 1934.*  
Hon. Auditors,  
Registered Accountants,

L. C. JAIN,  
*Hon. Secretary and Treasurer*

## INDIAN ECONOMIC ASSOCIATION

### NOTICES TO MEMBERS

#### **Annual Subscriptions, 1935-36**

Members are reminded that Annual Subscriptions (Rs. 12 or Rs. 12-4-0 to cover Bank's commission, if a cheque is sent) are due and payable on the 1st June each year and should be remitted to the Hony. Secretary, Professor L. C. Jain, University, Lahore.

#### **List of Members, 1935**

It is proposed to issue a complete list of Members of the Association correct as on 1st of June, 1935. Members are requested to notify the Secretary without delay of any change in their address, giving their full names and their last address.

#### **Applications for Membership**

Applications for Membership should be addressed by letter to the Secretary, Indian Economic Association, University, Lahore. The Annual contribution by members, including annual subscription to the Indian Journal of Economics, is **Rs. 12** only. Cheques should be for Rs. 12-4-0 to cover Bank's commission and made payable to Hony. Secretary, Indian Economic Association.



INDIAN ECONOMIC ASSOCIATION  
APPLICATION FORM

193

THE HONORARY SECRETARY,  
INDIAN ECONOMIC ASSOCIATION.

DEAR SIR,

I desire to become a member of the Indian Economic Association as I feel interested in its aims and objects. I have read the rules and regulations of the Association and I agree to abide by them.

Yours truly,

*Signature.*

*Name in full with titles and degrees* \_\_\_\_\_

*Occupation or Designation* \_\_\_\_\_

*Address* \_\_\_\_\_

We, members of the Indian Economic Association, recommend the above applicant for admission to the Association.

(1) \_\_\_\_\_

\_\_\_\_\_

(2) \_\_\_\_\_



## THE JANUARY AND THE CONFERENCE NUMBER

We would like to inform our subscribers that the papers read and discussed at the annual Conference of the Indian Economic Association and the proceedings of the Conference that were published in the January issue of the Journal will, from this year, be published in the April issue and the matter that was printed in the April issue will be printed in the January issue. The April issue will thus be the Conference Number and the January issue an ordinary issue. This change has been effected because it was found practically impossible to bring out the Conference Number in the month of January—the month whose name it bore. The Conference took place in the first week of January. The papers that were sent in after the date fixed for their submission or were actually presented by the authors at the Conference seldom reached us before the third week of January and the proceedings took a much longer time to be in our hands. The result was that the January issue could not be ready before the end of February. Sometimes it came out as late as the middle of March. There was thus a gap of about six months between the appearance of the October and the January issues. This was an undesirable state of affairs, the more so because it delayed naturally the bringing out of the April and July issues. We suggested to the Executive Committee that all this could be avoided if the January issue be made an ordinary issue and the April issue be converted into the Conference Number. The Executive Committee accepted our suggestion and it has been given effect to from this year. We realise that the change means that the subscribers will get the Conference papers and proceedings a little later than they used to but what is lost thereby will, we are sure, be more than gained by the various issues of the Journal seeing the light of day at regular intervals in the months of July, October, January and April after which they are named.

—MANAGING EDITOR